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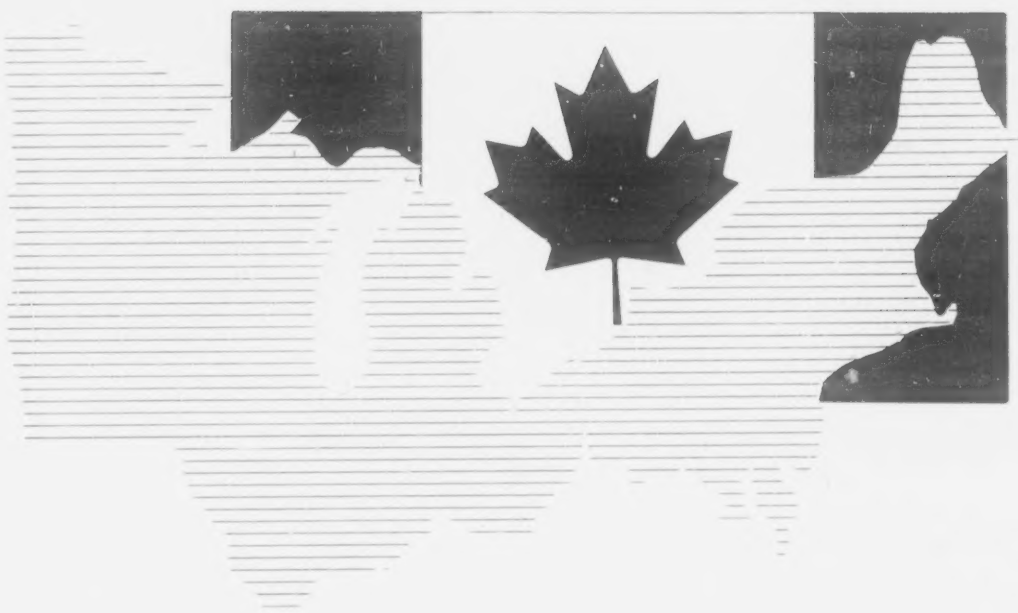
The U.S.-Canada Free Trade Agreement

Winners and Losers in the Northeast-Midwest Region

Teresa J. Taylor



NORTHEAST
MIDWEST
INSTITUTE
THE CENTER FOR REGIONAL POLICY

The U.S.-Canada Free Trade Agreement:

Winners and Losers
In the Northeast-Midwest Region

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NORTHEAST-MIDWEST CONGRESSIONAL COALITION
NORTHEAST-MIDWEST SENATE COALITION
NORTHEAST-MIDWEST INSTITUTE

In late 1976, members of Congress from the region founded the Northeast-Midwest Congressional Coalition in recognition of the common problems facing their states and the fact that federal policies often create major obstacles to regional economic growth. The bipartisan group now includes nearly 200 members of the House of Representatives. The Northeast-Midwest Senate Coalition, which was formed in 1978, has 36 members. Together the Coalitions seek to inform their members about the regional implications of national policies and proposals, and to influence those issues of greatest importance to Northeastern and Midwestern states.

The Coalitions propose legislative solutions to the economic problems of the New England, Mid-Atlantic, and Midwest states, and work to assure that federal policies are equitable in their treatment of different areas of the country. Task forces help develop policy initiatives and positions on subjects ranging from the federal budget and economic development to defense, natural resources, energy, and transportation.

The Northeast-Midwest Institute was formed in 1977 at the request of members of the House and Senate who perceived the need for information and analysis of public policies to identify and further the interests of the region. The Institute seeks to encourage policies that will ease the pressures on and support the continued revitalization of the region's economy. It continually searches for new ideas and legislative options that can help older Northern states overcome their handicaps--such as high energy costs and a deteriorating infrastructure--and prudently develop their many assets, including a highly skilled work force, top quality educational institutions, and abundant natural resources.

Although members of Congress remain key clients of the Institute, the organization has developed close working relationships with governors, mayors, and other state and local officials as well. The Institute's work is used widely and relied upon by corporate and labor leaders, academics, public interest groups, associations, and journalists throughout the nation.

The states in the region served by the three organizations are Connecticut, Delaware, Illinois, Indiana, Iowa, Maine, Maryland, Massachusetts, Michigan, Minnesota, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, and Wisconsin.

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EXECUTIVE SUMMARY

The United States and Canada recently negotiated a historic bilateral trade agreement that seeks to remove trade barriers across a broad range of goods and services. If ratified, the Free Trade Agreement (FTA) would increase trade between two countries that already enjoy the largest trading relationship in the world, with bilateral trade valued at about $150 billion annually. The report concludes that, although the agreement would provide for freer trade, its impact on the balance of trade, which in 1987 stood at $11.7 billion in Canada's favor, would remain uncertain.

The agreement is intended to achieve many trade-liberalizing objectives that should improve the competitiveness of the Northeast-Midwest region. These objectives include the following:

- Eliminate tariffs on all goods traded between Canada and the United States in immediate, five, and ten-year phase-out schedules. Key beneficiaries in the region include producers of telecommunications equipment, industrial machinery, paper products, precious metals, and jewelry.

- Establish a rule of origin in order to limit duty benefits to goods substantially produced in North America. This provision is intended to prevent third-country manufacturers from using Canada as a back door to ship products duty-free to the United States.

- Ensure long-term, non-discriminatory access to Canadian energy supplies. In particular, access to inexpensive Canadian hydroelectric power, oil and natural gas would reduce costs for energy-intensive industries located in the region.

- Establish principles for the conduct of services and investment. The FTA would provide national treatment for U.S. investment and services in Canada. Services covered include, among others, real estate, insurance, legal, health, mining and construction services. National treatment for investment means that U.S. investors would receive the same rights as Canadians in establishing, acquiring, and conducting business in Canada.

The Institute analysis notes, however, some long-standing trade disputes or barriers in Canada not addressed by the FTA, including subsidies and protection of Canada's "cultural industries." In addition, in several sectors such as automotives and textiles, the potential gains for U.S.-based producers are at best limited. State trade officials and industry leaders may want to pursue resolution on these issues in the future.

The stakes are high for northeastern and midwestern states, where about 72 percent of total trade between the two countries occurs. This report examines how some of the key industries and sectors in the region would fare if the FTA were approved. The sectors covered in the report were selected on the basis of their importance to the region's economy, and in some cases their political

sensitivity in the negotiations or their potential influence on the final congressional vote on the agreement.

As a means of measuring the potential impact of the agreement closer to home, the report also profiles each state's trade relationship with Canada. It identifies market opportunities resulting from the removal of trade restrictions, and industries or sectors that would have to adjust to increased competition once domestic protections were removed.

The U.S. House and Senate have equal jurisdiction over ratification of the agreement, unlike treaties, which are ratified only by the Senate. Congress already has begun to mark up the implementing legislation for the FTA. Under the "fast track" process provided in the 1974 Trade Act for such trade agreements, the House and Senate committees with legislative jurisdiction over the FTA will have 45 days to consider the bill before introducing it on the floor. Each House will have 15 days for floor consideration, but because the FTA contains revenue provisions, the fast track authority provides an additional 30 legislative days for consideration in the Senate. Congressional leaders have expressed their intent to vote on the FTA before the August recess.

Similarly, the Canadian Parliament is responsible for ratifying the FTA in Canada. With the United States being Canada's dominant export market, the Canadian government has made ratification of the FTA its highest priority under the current administration. It is generally assumed that the Parliament is awaiting action by the U.S. Congress before it begins consideration of the FTA.

PART I. GENERAL PROVISIONS OF THE FREE TRADE AGREEMENT

1. RULES OF ORIGIN FOR GOODS

"Rule of origin" is the standard used to determine a good's country of origin, and therefore its eligibility for duty benefits under a preferential trade arrangement. For goods that are wholly the product, growth, or manufacture of a single country, the country of origin is easily established. With the increased internationalization of production, however, raw or partially manufactured materials frequently undergo processing in more than one country before shipment to a final destination. A rule of origin establishes the point at which such materials become a product of a favored country.

Provisions of the Free Trade Agreement

In the context of the FTA, establishment of a rule of origin would ensure that either a minimum amount of materials originates, or processing occurs, in Canada or the United States before a good would receive duty-free or reduced duty status when shipped between the two countries, or "parties." For this purpose, a rule of origin must be strict enough to prevent third countries from using the United States or Canada as a back door to ship products to the other party duty-free.

The FTA defines a product as originating in the United States or Canada if it is wholly produced or has undergone sufficient transformation in one or both parties so as to change tariff classifications. The rationale is that a change in tariff classification reflects a substantial change in the product. This arrangement provides for the tariff schedules (based on the Harmonized System) to act as a codified set of guidelines for determining when a substantial transformation has occurred.

In addition to substantial transformation, the FTA would require that 50 percent of the value of a good originate in either or both countries before the good would be considered a Canadian or U.S. product upon export. This North American value-added requirement includes in its definition materials plus the direct cost of processing or of assembling the good in North America.

The FTA rule of origin would allow for certain cases in which a product assembled from foreign parts would not have to change tariff headings to receive duty benefits as a North American product if assembly added at least 50 percent to the total value. Similarly, the FTA would allow some products, such as apparel goods, to undergo substantial transformation without meeting the 50 percent value-added rule.

The FTA defines direct cost of processing to include labor, energy, tooling, depreciation and maintenance of equipment, development, design and engineering costs, rent or mortgage interest, and royalty or licensing payments. It excludes costs relating to general expenses of doing business such as advertising, sales, legal services, and brokerage fees. This definition of value-added is considered adequate to ensure that more production

is done in North America, rather than overseas, before a good receives preferential duty treatment.

2. TARIFFS

Canada and the United States agreed in the FTA to eliminate all tariffs on goods traded bilaterally. Goods fall into one of three tariff-reduction schedules: immediate elimination, effective January 1, 1989; phaseout over five years, with a 20-percent annual reduction through 1993; and a phase out over ten years, with a 10-percent annual reduction through 1998. Most products fall under the five-year or ten-year eliminations periods. According to a recent study by the U.S. Department of Labor, 35 percent or $6.7 billion of U.S. dutiable imports from Canada, and 53 percent or $7.2 billion of Canadian dutiable imports from the United States, would be phased out over ten years. But the bulk of dutiable Canadian imports to the United States--59 percent or $11.3 billion--would be phased out over five years, along with 34 percent or $4.5 billion of Canadian dutiable imports from the United States. The reduction schedule proposed for each product depends on several factors, including the extent to which an industry is integrated between the two countries, and the estimated time needed for a good to adjust to decreased protection. Products with ten-year tariff phase-out schedules are generally the most import-sensitive goods and have the highest tariffs.

Table 1 compares Canadian and U.S. tariffs on major commodities shipped between Canada and the Northeast and Midwest states. It also provides the schedule for eliminating these tariffs. As the table shows, Canadian tariffs are roughly twice as high as U.S. tariffs on fabricated materials and finished products. According to one estimate, Canadian tariffs on dutiable U.S. imports average 9.9 percent, in contrast to a 3.3 percent average duty collected on Canadian dutiable imports in the United States.

In general, Canada's tariff structure consists of free rates on raw materials and progressively higher duties for more value-added processed goods, the area that poses the greatest opportunities for increased bilateral trade. Historically, Canada has manufactured products for its small domestic market; this small-scale production has led to enormous inefficiencies. As a result, Canada has geared its commercial policies to protecting its processing and manufacturing industries from outside competition, which encourages greater inefficiency. Removing Canadian tariffs under the FTA would mean that American manufacturers could expand their sales in Canada or enter the Canadian market for the first time with an opportunity to compete successfully.

Several of the leading items shipped between Canada and states in the region are already free of tariffs. These products include aircraft engines and parts, newsprint, books and maps, newspaper, and lumber. Although Canadian industries generally enjoy greater tariff protection than their U.S. counterparts, several industries in the region are also protected by high tariffs, notably chemicals, apparel and textiles, as shown in Table 1. Removing tariffs in Canada and the United States likely would cause some restructuring or shifts within sectors, rather than creating dramatic trade gains for either country.

Table 1
Tariff Reduction Schedules
for Major Northeast-Midwest Products

Commodity	U.S. Tariff (in percent)	Canadian Tariff (in percent)	Reduction Rate
Data Processors	0 - 3.9	3.9	Immediately
Satellites	0 - 3.7	10.3	Immediately
Telephone Sets	8.5	17.5	Immediately
Semiconductors	0 - 4.2	4	0 - 5 years
Telecomm. Equipment	4.7 - 8.5	10.2 - 17.8	0 - 5 years
Furniture	4 - 6.6	12 - 15	5 years
Paper and Paperboard	0 - 5.8	5.7 - 10.2	5 years
Plastics (most)	3 - 8	13.6	5 years
Printed Materials			
Catalogs	free	28.6	5 years
Printed Advertising	4.9	24.3	5 years
Photographic Film (X-ray)	3.7	free	5 years
Color & Instant Print Film	3.7	10.2	5 years
Photo Plates	3.7 - 4.9	9.2	5 years
Waferboard	4	4	5 years
Machinery			
Plastics	3.9	5 - 9.2	5 years
Pulp and Paper	0 - 3	9.2	5 years
Textile	0 - 5.1	0 - 9.2	5 years
Printing	0 - 5.1	0 - 6.8	5 years
Machine Tools	3 - 4.4	0 - 9.2	5 years
Ball Bearings (most)			
for Motor Vehicles	free	9.2	5 years
for other Products	6.5	free	5 years
Jewelry	6.5 - 7	11 - 13.3	5 years
Chemicals	0 - 20	0 - 12.5	5 - 10 years
Electronic Tubes	0 - 4.2	9.2	5 - 10 years
Metal Bars, Plates, Rolls			
Nickel	3.7 - 5.5	0 - 10.2	5 years
Aluminum	1.5 - 6.5	0 - 10.3	5 - 10 years
Iron or Steel	0.9 - 7.5	4 - 12.5	10 years
Copper	1 - 6.3	4 - 10.3	10 years
Medical Equipment	4.2 - 10	free	10 years
Textiles	5 - 15.5	17.5 - 25	10 years
Cotton Yarn	5 - 10.8	12.5	10 years
Most Cotton Fabrics	7 - 15.5	17.5	10 years
Most Other Fabrics	6 - 14.7	25	10 years
Apparel	3 - 30	22 - 25	10 years
Auto Parts	free	9.2	10 years
Auto Engine Parts	free	9.2	10 years
Hand Tools	0 - 6.2	0 - 10.2	10 years
Watches and Clocks	6 - 6.5	11.3 - 22.5	10 years

SOURCE: Tariff Schedules of the United States and Canada

Either country could request bilateral consultations to accelerate the duty-reduction schedule for a product. If during the transition period of the FTA (1989-1998), reducing or eliminating duties on a good resulted in increased imports that caused serious injury to the domestic industry of the importing country, that country could suspend further reduction or even increase the rate of duty up to the regular rate. However, this action would be limited to three years.

3. INSTITUTIONAL PROVISIONS

Canada-U.S. Trade Commission

The FTA would establish a Canada-U.S. Trade Commission to supervise the implementation and operation of the agreement and to resolve disputes over interpretation of the FTA. The Commission would consist of government representatives from both countries, and would convene at least once a year to review the functioning of the FTA. The Commission would have the authority to establish and delegate responsibility to ad hoc committees or working groups and to seek the advice of nongovernmental individuals.

The agreement would establish an innovative approach to resolve disputes quickly. Either country could request bilateral consultations regarding any actual or proposed measure or any other matter it believed would affect the operation of the FTA. If an issue remained unresolved after 30 days following a request for consultations, either country could request a meeting of the Commission, which would convene within ten days. The Commission could call on technical advisors or the assistance of a mediator acceptable to both countries.

If the disputed matter were not resolved within 30 days after referral to the Commission, the Commission could refer the dispute to binding arbitration on terms agreed to by its members. The Commission would establish an arbitration panel composed of five members, at least two Canadian and two U.S. citizens. If a party failed to implement the findings of a binding arbitration panel and the parties could not agree on appropriate compensation or remedial action, then the other party could suspend the application of equivalent benefits under the agreement to the noncomplying Party.

Binational Dispute Settlement for Antidumping and Countervailing Duty Cases

Each party would reserve its right to apply its antidumping (AD) or countervailing duty (CVD) law to goods imported from the other party. Also, each country could change or modify its AD or CVD law. However, an amendment to a party's AD or CVD statute would apply only to the other party's goods if the amendment (such as in U.S. trade legislation) specified such application.

Canada and the United States would establish a binational panel separate from the Commission to replace judicial review of a final determination in an antidumping or countervailing duty case. The binational panel would replace final review currently handled by the U.S. Court of International Trade in the United States, and by the Canadian Import Tribunal in Canada. The binational panel would determine whether an AD or CVD determination was in accordance with the law of the importing party. The parties would use the binational dispute panel only if a party requested a panel review following a final determination of a case.

A party would have 30 days from the date of a final determination by either party to file a complaint and request a panel review. Final decisions would be made within 315 days from the date of such request. A panel could uphold a final determination or remand it for action consistent with the panel's decision. All decisions of a panel would be binding on the parties and neither party would be allowed to include in domestic legislation an appeal from a panel decision to its domestic courts. Some Members of Congress have raised questions about the constitutionality of a binational panel having such binding authority.

Subsidies

The FTA does not directly address the issue of government subsidies, despite their prevalence in Canadian commercial policy. Subsidies may be classified broadly as export subsidies--illegal under Subsidies Codes of the General Agreement on Tariffs and Trade (GATT)--and domestic subsidies, which are sometimes illegal, depending on their application. Examples of export subsidies include government payments tied to a company's performance, or export credits at interest rates below what the government paid. The U.S. countervailing duty (CVD) laws are designed to protect producers against such export subsidies.

Under the GATT Subsidies Code, domestic subsidies may be used to promote social and policy objectives such as assistance to depressed regions. However, if a domestic subsidy causes damage to the industry of another country, it may be declared an unfair trade practice and therefore subject to countervailing duties.

The key factor in determining the existence of a subsidy is its "general availability" as defined by the Subsidies Code of the GATT. If a federal or provincial subsidy program is not generally available throughout Canada and for all industries, the U.S. government maintains that it is an export subsidy subject to countervailing duties. Concern remains in the United States over Canadian subsidies of electric power, potatoes, potash, automotives, textiles, and paper, to name a few.

New Subsidies Code

The United States and Canada would establish a new system for applying antidumping and countervailing duties on each other's goods. Provisions for a binational panel would be in effect for five years pending the development of this new system, with an additional two years allowed if a new system were not agreed to and implemented within the five years. The two countries also would establish a working group to develop more effective rules and disciplines for dealing with unfair pricing and government subsidies.

PART II. SECTOR ANALYSIS

4. AUTOMOTIVE PRODUCTS

Automotive parts and finished vehicles constitute the largest sector of trade between the United States and Canada. Within the United States, the production of motor vehicles and parts is concentrated in the Northeast-Midwest Region. Moreover, auto parts are the number one export to Canada from New York, Maryland, Pennsylvania, Illinois, Michigan, Indiana, Ohio and Wisconsin, and is a major export commodity for several other states in the region.

Automotive trade exceeded $46 billion in shipments in 1986, over one-third of total bilateral trade in merchandise goods. During 1986, the U.S. deficit in auto trade with Canada reached $3.7 billion, the single largest bilateral deficit. The U.S.-Canadian Automotive Agreement (Auto Pact), signed in 1965, governs virtually all bilateral trade in automotive products. The Auto Pact was negotiated originally to remove a Canadian automotive duty remissions program and to liberalize automotive trade, thereby promoting a more rationalized industry and integrated North American market.

Over the years, however, the Auto Pact has distorted trade and investment to the benefit of Canada, and has largely contributed to the $3.7-billion deficit. Furthermore, the North American automotive market has undergone dramatic changes since 1965; specifically, the market has experienced increased imports and a growing presence of foreign-owned producers, such as Toyota, Honda, Nissan, and Hyundai. These changes, in combination with production safeguards maintained in Canada, raised concerns during the free trade negotiations about the continued benefit of the Auto Pact for the United States and the North American market.

Background

In the mid-1960s, Canada faced a growing automotive trade deficit, spurred in part by an increase in imports of U.S.-made passenger cars to meet the growing domestic demand. The Canadian government responded with an export-based duty remissions program, which provided a rebate of duties on finished vehicles to those manufacturers who agreed to export Canadian original equipment (as opposed to replacement) parts. The U.S. auto parts industry attacked the program as an export subsidy and filed a petition to impose a countervailing duty. The issue was resolved in 1965 with the signing of the Auto Pact, which eliminated duties between the two countries for finished vehicles and original equipment parts with at least 50 percent U.S. or Canadian value-added.

The Auto Pact contains safeguards stipulating that if an automaker meets a certain level of production and value-added in Canada, it becomes "qualified" to import finished vehicles and original equipment parts into Canada duty-free from any country in the world, including the United States. This duty-free privilege under the Auto Pact is often referred to as "multilateral sourcing." In contrast, the United States imposes no similar requirements to protect domestic production and has implemented the Auto Pact on a bilateral basis, granting duty-free treatment only to Canadian automotive products.

Canada reinstated its export-based duty remissions program during the mid-1970s to provide automakers with incentives to purchase parts in Canada. Beginning in the early 1980s, Canada simplified procedures and expanded benefits of the duty remissions program. In August 1986, the U.S. Trade Representative determined that the remissions program constituted an illegal export subsidy under the GATT Subsidies Code. In addition to the export-based remissions scheme, Canada established a production-based duty remissions program for certain Canadian-based manufacturers (other than those operating under the Auto Pact). Under this program, automakers who purchase a large amount of Canadian parts for production in their assembly operations in Canada receive rebates on vehicles and parts they import into Canada. By tying tariff rebates to production in Canada, this remissions program has contributed to distorting trade and investment in favor of Canada, while effectively discriminating against U.S.-based auto parts.

Effects of the Auto Pact on U.S. Auto Parts Producers

The auto parts industry is hit hardest by the inequities of the Auto Pact and Canadian duty remissions schemes. The Auto Pact limits sales in Canada of U.S.-based parts by virtue of the Canadian production and value-added requirements, which guarantee a market for Canadian parts. The 60-percent Canadian value-added required of Canadian-based manufacturers provided U.S. parts makers a strong incentive to locate in Canada. Furthermore, because "qualified" Canadian-based manufacturers can import parts duty-free from third countries, U.S. parts makers are given no preference over suppliers from Japan, Korea, Brazil, and other third countries.

U.S. auto parts suppliers are also at a disadvantage in selling to "transplants"--foreign manufacturers with facilities in the United States. Since these automakers do not meet the Canadian safeguards imposed by the Auto Pact, the vehicles they assemble in the United States and ship to Canada face a Canadian duty of 9.2 percent. The duty applies no matter how high the U.S. content or value-added is in the exported vehicles; as a result there is no incentive for U.S. transplants to buy parts locally for vehicles they ship to Canada.

Meanwhile, foreign competition, in terms of imports and direct investments, has boomed in the 1980s, bringing enormous domestic challenges to the U.S. auto parts industry. According to a report released in January 1988 by the U.S. International Trade Commission, foreign manufacturers sold 20.4 percent of all auto components used in cars and trucks assembled in the United States or sold on the aftermarket, a large increase from 13.3 percent in 1982. During that same four-year period, the U.S. trade deficit in auto parts grew from $1.2 billion to $10 billion.

Automotive Provisions of the FTA

Auto Pact and Duty Remissions Programs

Removing barriers in automotive trade was one of the most contentious issues in the free trade negotiations. The Auto Pact is essentially left untouched under the FTA. However, the FTA would limit Auto Pact benefits to companies currently qualified or companies that could become qualified by the 1989 model year. Restricting Auto Pact benefits to currently qualified manufacturers means that Japanese and Korean transplants in Canada would not be eligible for multilateral sourcing. This change would remove the Auto Pact as an incentive for new manufacturers to locate in Canada to serve Canada and the U.S. market on a duty-free basis.

Canada would terminate its export-based duty remissions program on January 1, 1989 on exports to the United States, the date on which the FTA would take effect. However, Canada would continue to use export-based duty remissions for exports to third countries such as Japan and Korea through January 1, 1998. Canada's production-based duty remissions program would be in effect until January 1, 1996, or until existing contracts between the Canadian government and the recipient manufacturers expire.

Duties and other Provisions

The FTA would phase out Canadian duties on new vehicles and parts of non-Auto Pact producers over ten years, beginning January 1, 1989. The United States does not impose duties on any new automotive products coming from Canada. The negotiators agreed to phase out duties on replacement parts ratably over five years.

After January 1, 1994, all vehicles entering the U.S. customs territory or exported to Canada from a Foreign Trade Zone would pay the U.S. duty of 2.5 percent. The same treatment would apply to Canada's Inward Processing Program, which is similar to the U.S. Foreign Trade Zone Program. In addition, Canada agreed to phase out over four years its prohibition on imports of used motor vehicles. The United States has no similar restriction.

The rule of origin proposed in the FTA would be measured on a more flexible basis for automotive products than for most products. Rather than meeting a 50-percent value-added rule in <u>each</u> good, automakers could choose to apply the 50-percent content requirement on a per-class basis, assembled in the same plant, and averaged over a 12-month period. This exception to the rule is an easier, and generally preferred method for accounting purposes. Although the 50-percent value-added rule of origin in the FTA is considered a tighter standard than the rule used in the Auto Pact because it would count direct costs of manufacturing exclusively, its actual benefits are questionable in the case of automotives. Based upon industry calculations, the 50-percent rule would not ensure that the engine and drive train and a large portion of other major components would be produced in North America. Industry groups in both Canada and the United States sought a rule of origin of at least 60 percent, but were unsuccessful.

Effects of FTA on U.S. Automotive Products Trade

The FTA is a mixed deal for the U.S. automotive industry. It would provide several benefits:

- It would freeze Auto Pact membership to only those companies currently qualified or that could become qualified by January 1, 1989. This would remove a major incentive for new manufacturers to locate in Canada in order to sell in Canada and the United States on a duty-free basis.

- It would provide a tougher rule of origin, which would encourage automakers in the United States and Canada to purchase more parts in North America (rather than importing them) for vehicles shipped to the other country.

- It would terminate Canada's production-based duty remissions program after January 1, 1996, or when existing contracts between the automakers and the Canadian government expire. These programs encourage Canadian-based automakers to purchase parts made in Canada.

- It would phase out over ten years Canada's 8 percent tariff on most original equipment and replacement parts and 9.2 percent tariff on new finished vehicles. The removal of Canadian automotive duties would expand market opportunities for foreign-owned companies (transplants) in the United States selling vehicles to Canada and U.S.-based auto parts suppliers selling to transplants in Canada.

However, the drawbacks of the FTA for the U.S. automotive industry include the following:

- The operation of the rule of origin and its percentage is not adequate to prevent automakers from purchasing the engine, drive train, and the electronics of a vehicle from suppliers outside North America. In other words, the proposed rule of origin limits opportunities for North American auto parts makers to supply the most substantial components of a vehicle.

- The retention of the production-based duty remissions program until 1996, which provides foreign-owned manufacturers in Canada an incentive to purchase Canadian-built parts, would result in the establishment of long-term supplier relationships in Canada. Therefore, the program's distortive trade and investment effects would remain in effect long after these duty remissions schemes were terminated.

- The removal of Canada's duties on automotive goods over ten years would maintain discriminatory treatment against exports of parts produced in the United States for the longest possible time, while Canadian producers continue to enjoy duty-free access for shipments to the U.S. market. Furthermore, the benefits derived from reducing Canada's tariffs are diminished by the continuation of the production-based duty remissions program through 1995.

5. OTHER MANUFACTURED GOODS

Machinery

The machinery industry is on a major upswing nationally. Industry analysts assert that the lower value of the U.S. dollar has been the single biggest boost to the industry, increasing price competitiveness and sales of U.S. machinery overseas, while making foreign products more expensive in the domestic market. In addition to the weak dollar, machinery makers are seeing sales grow domestically as downstream manufacturers such as automakers, appliance producers, and electrical equipment manufacturers are beginning to invest in new equipment to upgrade existing plants and improve efficiency.

All of these factors play well for Northeast and Midwest states, where the machinery industry has remained an integral part of the economy. The region enjoys an enormous diversity in machinery production. All 18 states produce machinery for export to Canada and with the exception of only a few states record a surplus in bilateral machinery trade. Illinois leads the region in machinery shipments to Canada, but other states make a strong showing, including Michigan, Wisconsin, Ohio, Pennsylvania, and New York. Major types of machinery shipped include printing, pulp and paper, agriculture, metalworking, textile, and plastics machinery.

As shown in Table 1, Canada imposes duties ranging from 0 to 9.2 percent on imported machinery, while U.S. tariffs on comparable products cap at 5.1 percent. The FTA would phase out tariffs on most machinery over five years. Although Canadian tariffs on machinery are not exorbitant relative to other products, Northeast and Midwest states likely would achieve greater penetration of the Canadian market and enjoy increased profits if they were removed. The elimination of trade barriers, in combination with the industry's restored economic health in recent years, could make machinery exports to Canada a leading growth sector for these states.

Electronics

Canada is the largest market for exports of U.S. electronics equipment. According to the American Electronics Association (AEA), bilateral trade in electronics reached $7.5 billion in 1986. During the first nine months of 1987, U.S. electronics producers shipped $4.7 billion to Canada, while Canada exported $2.4 billion in electronics equipment to the United States. Canada and members of the European Community are the only countries with which the United States enjoys a surplus in electronics products.

The strong U.S. trade performance in this sector is demonstrated throughout the Northeast and Midwest. Virtually every state in the region exports telecommunications and computers or computer components to Canada. New York and Massachusetts, which lead the region in computer exports north, rank second and third respectively in the United States in providing the highest number of electronics jobs. Minnesota ships more computers to Canada than any

other single item, and Vermont leads the region in shipments to Canada of electronic tubes and semiconductors, which account for about 44 percent of the state's total exports north. While the states' exports to Canada of telecommunications equipment and computers are fairly balanced, Canada's electronics shipments to the Northeast-Midwest are limited to telecommunications, reflecting the fact that Canada does not have a significant, export-driven computer industry. (Illinois is the exception, with $11.3 million in computer imports from Canada, as shown in Table 26 in Chapter 13 of this report.)

Provisions of the FTA

Despite the dominant role Canada plays as a market for U.S. electronics products, it has erected significant market barriers. Canadian tariffs on telecommunications equipment are some of the highest in the industrialized world. U.S. telecom equipment faces duties between 10.2 percent and 17.8 percent; U.S. duties on comparable Canadian equipment range between 4.7 percent and 8.5 percent, as shown in Table 1. These duties would be phased out over five years under the FTA. U.S. data processing equipment carries 3.9 percent Canadian duties and telephone sets face a 17.5 percent tariff, both of which would be removed immediately. Elimination of all these duties would boost significantly exports of electronics goods from Northeast and Midwest states.

The U.S. electronics industry would benefit from provisions in the FTA lowering Canada's threshold for reviewing foreign investment, explained in Chapter 9. The FTA would reduce problems U.S. producers have faced in meeting Canadian testing and certification standards for equipment. The Canadian Standards Association, responsible for testing equipment, frequently has used standards to restrict U.S. products. Under the FTA, the trading partners would harmonize technical standards and other measures and procedures for product approval. However, harmonization would apply only to federal standards and not to state or provincial measures.

Unresolved Problems

Despite these important gains reached in negotiations, the U.S. electronics industry would continue to face market access barriers and other obstacles in Canada. The most serious Canadian non-tariff barrier, according to U.S. telecommunications equipment producers canvassed by the Northeast-Midwest Institute, is the preferential purchasing arrangement between Bell Canada and its vertically integrated equipment supplier, Northern Telecom, of which Bell Canada owns 51.9 percent. Bell Canada is the largest services provider in Canada, accounting for about 60 percent of telecommunications services. It purchases an estimated 85 percent of its equipment from Northern Telecom.

The preferential supplier arrangement gives Northern Telecom the right of first refusal on all equipment purchases and ensures that the prices Bell Canada pays are as low as those offered to Northern Telecom's most favored customers. If Northern Telecom does not produce a piece of required equipment, Bell Canada can choose to wait for the producer to develop it rather than purchase it elsewhere. Industry analysts maintain that barriers resulting from this preferential agreement have kept U.S. manufacturers out of an estimated 60 percent of the Canadian telecommunications network equipment market.

Meanwhile, as the largest Canadian equipment manufacturer, Northern Telecom has benefited from the enormous new telecommunications market that has resulted from the breakup of AT&T. Northern Telecom's subsidiary in the United States, Northern Telecom Incorporated, is now the second largest U.S. equipment manufacturer behind AT&T, with plants and research laboratories in 11 states. In fact, Northern Telecom's sales in the United States far exceed its sales in Canada. In 1986, the company's U.S. revenues reached $2.9 billion, compared to $1.7 billion in Canada, and $246 million in the rest of the world. Despite the clear inequity of limiting access for U.S. equipment producers in the Canadian telecommunications equipment market, while Canadian producers enjoy a wide open and lucrative U.S. market, the FTA does not resolve this problem.

In addition, the agreement does not address Canada's "rationalization program," designed to promote long-term industrial development and reverse Canada's deficit in manufactured goods. Under this program, Canada restricts a U.S. company that produces computers, office equipment or consumer electronics from bidding on government contracts if its Canadian subsidiary does not meet certain conditions, such as retaining earnings in Canada and purchasing Canadian goods and services for its business activities. Although Canada recently revised its regulations to make the rationalization program less onerous, the regulations still raise the question of whether U.S. firms operating in Canada receive national treatment.

In addition, the FTA would not increase intellectual property rights protection for products and services. AEA is particularly concerned that U.S. negotiators did not obtain a commitment from the Canadian government to grant copyright protection for computer software. In fact, there is no language in the FTA addressing intellectal property rights in bilateral trade, although both countries agreed to work toward establishing an international code in the upcoming multilateral trade negotiations to protect these rights.

The Canadian rationalization program, the Bell Canada-Northern Telecom preferential supplier relationship, and the need for increased intellectual property protection for U.S. computer software are issues that U.S. electronics producers may want to pursue in future trade discussions with Canada.

Steel

Background

Steel production in Canada is almost entirely concentrated in Ontario. Canadian producers are currently exempt from U.S. steel quotas under the President's Voluntary Restraint Agreement (VRA) Program. One reason cited for this exemption is the integration of the U.S. and Canadian markets; imposing quotas, some argue, would hurt U.S. producers who use Canadian steel. Canada promised in a "gentleman's agreement" not to exploit this open arrangement. However, in 1987 Canadian penetration of the U.S. market reached 3.9 percent in finished steel, compared to 3.5 in 1986 and 3.0 in 1985. According to industry analysts, 1.0 percent of the market equals roughly one million tons of steel.

The growth in Canadian steel imports has occurred at the same time that total steel imports into the United States has decreased. In 1984, U.S. imports of finished steel from all countries had reached 25.7 percent of the U.S. market. Under the President's VRA program, the import share of the

domestic market decreased to 19.8 percent by 1987--the president's goal under the program is to shrink imports to 18.5 percent of the domestic market. The U.S. industry wants to bring Canadian import growth into line with the steady decrease of steel imports from other countries. Canada asserts that the surge in shipments is caused by transshipments and dumping (selling at less than fair market value) from third countries, and shipments from Canadian steel producers that are too small to monitor.

With concern growing that the U.S. Congress will place a quota on Canadian steel imports, the Ontario Government pressured the Mulroney administration to establish a monitoring system under the Canadian Import Tribunal to track domestic steel shipped to the United States, with a particular focus on shipments of specialty steel products.

Steel Provisions of the FTA

The FTA would not place Canada under a VRA, which is the greatest concern of the U.S. steel industry with respect to the agreement. Although the FTA does not preclude Canada from entering into a VRA sometime in the future, the Canadian government has consistently said it does not need or want to be subject to a quota for steel shipped to the United States.

Duties on steel would be phased out over ten years. With a few exceptions, Canadian duties on steel range between 6.8 percent and 12.5 percent, roughly double U.S. levels. U.S. producers are concerned that given Canada's high tariffs, phasing them out over ten years would maintain a preferential position for Canadian producers, while discriminating against U.S. producers. The concern over the phase-out process is virtually universal among American manufacturers across many sectors, since Canadian duties are double U.S. duties in most finished products.

Other problems expressed by the U.S. steel industry include the dispute settlement and binational panels, and the proposal to establish a new system for applying antidumping and countervailing duty laws, explained in Chapter 1. The domestic industry argues that these provisions could seriously weaken its primary defense against unfair trade practices. While there is no consensus among steel producers to oppose the FTA, widespread concern exists that the agreement, with its built-in shortcomings, would be used as a model for trade worldwide.

Textiles and Apparel

Historically, the Northeast was the home of the U.S. textile industry. However, intense foreign competition and other economic factors caused many manufacturers to move their plants overseas or to states in the South. Despite this trend, the region has maintained viable fibers, textile and apparel industries. Combined, these industries employ about 2 million workers in the United States, about half of whom are located in the Northeast and Midwest. Moreover, many of the industry suppliers such as needle makers, textile machine tools, and dye producers have remained in the Northeast, increasing the importance of the overall industry to the region. In New York alone, an estimated 175,000 workers depend on textiles or apparel for their livelihood. Another 151,000 workers can be found in Pennsylvania, while New Jersey and Massachusetts employ 66,000 and 56,000 respectively. These states, along with

the rest of New England and several Midwest states, produce textiles or apparel for export to Canada. In fact, Canada is the leading export market for U.S. textile exports.

Provisions of the FTA

There are at least three provisions of the agreement important to U.S. apparel and textile manufacturers, foremost of which is a quota allowance. Although Canada and the United States do not impose quotas on each other's textile and apparel imports, the agreement would set limits on the amount of apparel exports made from imported fabric that could receive duty benefits under the FTA. Canada could ship to the United States up to 56 million yards of apparel made from imported fabric once it had undergone a single transformation process (for example, fabric made into a shirt). By comparison, the agreement would limit the United States to shipping 11.5 million yards of apparel made from imported fabric. Apparel shipped above these levels would require "double transformation" (for example, yarn made into fabric and stitched into a garment) before it would receive preferential duties. Products above these allowances that underwent only a single transformation would be subject to regular duties.

Second, the FTA would exempt textiles from a prohibition in the agreement on duty drawbacks. Duty drawbacks are rebates granted to a manufacturer on duties of imported materials that are incorporated into a product that is subsequently exported--for example, woven fabric imported from South Korea, made into a shirt and shipped to the United States. Under the FTA, duty drawbacks would be prohibited after January 1, 1994 on all goods except textiles.

Third, the agreement would deny duty-free treatment of "Section 807" garments shipped from the United States to Canada. Section 807 allows U.S. apparel producers to ship fabric and components to the Caribbean and Mexico for assembly; the finished garments reenter the United States, at which time producers pay duties only on the value-added overseas.

Implications for the U.S. Industry

According to a spokesman with the American Apparel Manufacturers Association (AAMA), Canada's 56-million yard quota allowance under the FTA represents double its 1987 shipments to the United States, while the U.S. quota represents the volume of last year's exports to Canada. The comparatively low quota level for U.S. producers, in combination with high Canadian duties ranging between 17 and 25 percent on textiles and apparel, would limit opportunities for U.S. producers to penetrate the Canadian market. As shown in Table 1, U.S. duties by comparison range between 5 and 15 percent for textiles, and from 3 to 30 percent for apparel, with most duties falling under 10 percent. Although both countries' duties would be eliminated after ten years under the FTA, Canada's tariffs would remain higher throughout the phase-out period, thereby maintaining a more restrictive barrier for U.S. producers selling in the Canadian market, relative to duties Canadian producers would face in the United States. The retention of higher Canadian duties during phase-out periods under the FTA is a source of contention for many U.S. industries.

The exemption to allow duty drawbacks for textiles would be considerably more beneficial for Canadian apparel producers than U.S. producers. The Canadian apparel industry, unlike the U.S. industry, relies heavily on imports since it lacks a significant domestic textile industry. Canadian apparel makers would use drawbacks extensively in order to reduce their input costs for producing apparel. U.S. producers, meanwhile, could not take advantage of the drawback exemption to the same extent because much of the textiles they use are produced domestically. In addition, U.S. apparel producers would be further disadvantaged by the prohibition on exporting Section 807 garments to Canada under preferential duty treatment.

In sum, these three provisions combined--a higher quota for Canadian exports of apparel made from third-country fabric, an exemption from the drawback prohibition for textiles, and a prohibition on duty benefits for U.S. shipments of 807 garments to Canada--would place American apparel and textile industries at a comparative disadvantage under the agreement vis-a-vis Canada.

Canada's Proposed Duty Remissions Program for Textiles

Adding insult to injury, the Canadian government announced in March 1988 that it will establish a subsidy program for its apparel makers. Under the program, Canada will extend and create additional duty remissions schemes, which will give apparel makers duty rebates on textiles imported from third countries. To establish this program, Canada is using a provision in the agreement which states that neither party would be allowed to introduce after June 30, 1988, or after Congress approved the agreement, any new program that waives duties on products imported from third countries or from the other party. However, Canada's proposed program violates the spirit and key objectives of the FTA by increasing protection and assistance to Canadian producers, at the same time the United States opens its market wider to Canada. Moreover, the program breeches a commitment made by both countries under a "standstill" provision not to erect any new barriers or subsidy programs before the FTA would take effect on January 1, 1989.

In contrast to duty drawbacks, duty remissions are rebates granted to a manufacturer on duties of imported materials, provided the manufacturer either uses a specified amount of domestic materials in its production or exports a given quantity of an unrelated product. In sum, duty remission schemes allow a government to provide a domestic manufacturer a subsidy for producing or exporting a product, which in most cases is illegal under the GATT. The FTA would eliminate all duty remissions schemes after January 1, 1998; therefore, if the FTA is ratified, the program will last ten years. If the FTA is not approved, these remissions schemes will last indefinitely. Canada intends to provide further assistance to its domestic apparel and textile producers by reducing or eliminating tariffs on specialty fabrics and imports. Combined, these two programs will save Canadian producers an estimated US $50.5 million annually on duties, according to the Canadian government.

Effect on U.S. Industry and Market

Consistent with the thrust of Canadian economic policy, which is directed toward producing goods for export to the United States, the proposed duty remissions program will have the practical effect of assisting Canadian manufacturers in further penetrating the U.S. market. Although these

remissions schemes do not contain export requirements as a condition for receiving the duty rebates, a large percentage of the apparel produced under the subsidy program will be shipped south.

U.S. textile, apparel, and related industries will be disadvantaged by Canada's proposed programs in several ways:

- The duty remissions scheme effectively would eliminate Canadian high tariffs on imports of non-U.S. fabric, thereby giving away the tariff benefits granted exclusively to the U.S. textile industry under the agreement.

- The tying of duty rebates to domestic production and sourcing requirements in Canada discriminates against the purchase of U.S. textiles. By having to meet these domestic requirements, Canadian apparel producers will have little incentive to purchase U.S. textiles.

- U.S. textile producers also would lose sales in Canada because of the incentive built into the remissions program for Canadian apparel makers to purchase textiles from third countries duty-free.

- The duty remissions schemes will provide the Canadian apparel industry a substantial, unfair advantage over U.S. apparel makers who will not enjoy similar federal assistance since our government does not sanction such remissions programs.

U.S. trade officials, Members of Congress in the House and Senate, and apparel and textile industry associations and unions have expressed strong opposition to Canada's proposal. Beyond its economic effects, Canada's proposed program raises several concerns. Specifically, if this duty remissions scheme is allowed, what assurance does the United States have that other Canadian industries will not seek similar government assistance in order to adjust to a more liberalized trade regime under the FTA? And further, if the United States allows Canada to enact these duty remissions schemes, what are the chances that other trading partners will follow Canada's example in order to penetrate the U.S. market in other industries.?

Paper and Printed Materials

The paper and paper products industry is generally well integrated between Canada and the United States. Canada is a major market for U.S. paper, paperboard and converted products, accounting for 18 percent of production in the United States. In turn, the U.S. paper industry relies heavily on Canada for wood pulp to manufacture paper products. But the most important Canadian paper export to the United States is newsprint. Canadian producers supply over 60 percent of newsprint demand in the United States. Although the United States is also a major newsprint producer, Canada enjoys a comparative advantage and therefore imports very little from the United States.

The newsprint industry is experiencing one the largest expansions in its history, with some analysts predicting 1988 and 1989 to be the best years to date. With a shortage of newsprint in the North American market, the price of newsprint went up 7.5 percent last summer and newsprint producers are operating at close to full capacity in both Canada and the United States. Industry

analysts are concerned, however, that the current expansion could lead to oversupply. According to one publisher in British Columbia, the industry continues to experience large swings because it takes two to three years to build a newsprint machine, and there is no way to predict future demand. To help protect themselves from this cyclical pattern while decreasing dependence on Canada for newsprint, U.S. newsprintmakers are encouraging direct investment by newspaper publishers to ensure long-term customers for their products. This kind of customer backing will help producers protect their long-term projects. According to one industry source, at least eight major projects are underway in North America, five are located in the United States (all of which are in the South), and three are found in Canada.

The paper industry assumes a leading position in the manufacturing sector of many Northeast and Midwest states. In New England, the paper industry is composed of many small companies that produce specialty grades of paper, much of which is shipped to Canada. To produce this paper, the states rely heavily on Canadian imports of wood pulp.

The American printing industry represents an enormous component of the U.S. manufacturing sector, exceeding the computer industry by 350,000 more jobs and $3 billion in sales. More important, printing is one our nation's largest small business industries, with the average company employing 22 workers. Canada is our leading market for exports of printed materials, amounting to $750 million in 1987; this figure represents over one half of the industry's total shipments abroad.

It is also an industry which faces some of the most discriminatory treatment in Canada among U.S. goods. The Canadian government provides protection and assistance to its domestic printing industry through several measures. First, it levies a 28.6 percent tariff on catalogs and a 24.3 percent tariff on printed advertising, as shown in Table 1. By comparison, the United States allows catalogs into the country duty-free and levies a 4.3 percent tariff on printed advertising. Second, U.S. magazines and newspapers that are printed in the United States must pay postal rates that are six times higher than Canadian publications. And third, U.S. printed publications are prohibited from entering Canada if they contain more than 5 percent advertising directed at a Canadian audience. Despite these major obstacles, the U.S. printing industry achieved a $186 million trade surplus with Canada in 1986.

Provisions of the FTA

Paper products face tariffs as high as 10 percent in Canada; by comparison, U.S. tariffs cap at 5.8 percent (see Table 1). These tariffs would be phased out over five years under the FTA, which could mean large profits for New England producers, who could increase their market niche in Canada for specialty grade paper. American newspaper publishers would continue to enjoy duty-free imports of Canadian newsprint.

However, U.S. paper producers would still have to contend with Canadian government subsidies given to its domestic paper producers. Despite the availability of an abundant supply of raw material resources and access to a relatively open U.S. market for its paper products, the Canadian industry suffers from certain bottlenecks. For example, the industry is limited by outdated papermaking machinery, particularly in eastern Canada. According to a report by the Canadian Royal Commission, about 50 percent of the Canadian

industry's machinery currently in use was made before 1950, compared to 25 percent in the United States, and only 5 percent in Scandinavia. The Canadian government has responded to this problem by providing subsidies in the form of low interest loans and "forgiven" loans in order to expand large capacity mills and modernize equipment. The FTA does not address subsidies, a problem which is described in Section 1 of this report.

Concessions reached for the printing industry are a mixed bag. The FTA would phase out tariffs on printed matter over five years, creating an opportunity for many producers, especially in catalog and printed advertising sectors, to sell in Canada for the first time. Removing these restrictions could fuel new growth for these sectors that already account for a large piece of the industry, with printed advertising representing 30 percent of the U.S. industry and catalog printing 14 percent. Magazines and books account for another 17 percent and 5 percent respectively.

The FTA, however, fails to remove Canada's discriminatory postal rates and import restrictions, which fall into the black hole of "cultural sovereignty" issues, and are therefore untouched. Despite an announcement that an agreement was reached in negotiations on postal rates, the Canadian government later stated that it would only eliminate the discriminatory rates on "substantial circulation" publications, based on a circulation of 100,000. According to testimony from the Printing Industries of America, this clause will exempt only the three largest magazines from having to pay the higher postal rates.

6. AGRICULTURE PRODUCTS

Background

Bilateral trade in agriculture goods (excluding lumber and fishery products) amounts to about $3.4 billion annually, or 3 percent of total U.S.-Canada trade. Although agriculture does not constitute a large portion of bilateral trade, it has accounted for a significant number of trade disputes, mostly surrounding subsidization and dumping of farm products.

The two countries ship many of the same products to each other's markets, including vegetables, vegetable products, grains and feeds, beef and pork, and oilseeds, such as soybeans. According to the U.S. Department of Commerce, the United States enjoyed a small surplus in bilateral agriculture trade during the early 1980s, recording a $203 million surplus in 1984. In 1985, this surplus shifted to a deficit, which widened to $505 million in 1986. (Canada disputes these trade figures, showing the United States with a $500 million agriculture surplus for 1986.) A commonly cited cause for this deficit is real exchange rates, which have dampened the price competitiveness for U.S. products.

As shown in Table 2, Canada boasts a bilateral surplus in meat, dairy products, potatoes, sugar and sugar products, and to a smaller extent in grains. Agriculture goods in which the United States has a surplus include poultry, vegetables (excluding potatoes), oilseeds, and eggs. In general, the region enjoys a wide diversity in agriculture trade with Canada. However, one noticeable difference is found in Canadian shipments to New England states, which, with the exception of Vermont and Connecticut, are dominated by fish and fish products.

Leading the region in agriculture exports to Canada are New York, Illinois, Minnesota, and Massachusetts, followed by New Jersey, Ohio and Pennsylvania. The leading importers of Canadian agriculture products in the region include Massachusetts, New York, Pennsylvania, Illinois, New Jersey, and Maine. Iowa and Indiana are the only states in the Northeast-Midwest that boasted an agriculture surplus with Canada in 1986. Most of the remaining states import at least double what they export to Canada in agriculture goods.

Agriculture Provisions of the FTA

The United States and Canada sought removal of trade barriers in four broad areas:

- Tariffs (general and seasonal tariffs);
- Subsidies (direct export subsidies and subsidies under the Canadian Wheat Grain Transportation Act);

Table 2

U.S. Agriculture Trade with Canada
For Selected Commodities: 1986
(in millions of U.S. dollars)

Commodity	U.S. Exports	U.S. Imports	Total Trade	Trade Balance
Total Agriculture Exports 1	1,466.0	1,971.3	3,437.3	-505.3
Grains and Feeds	168.0	285.3	453.3	-117.3
Animals and Products	271.5	942.0	1,213.5	-670.5
Beef and Veal	25.9	145.4	171.3	-119.5
Pork	8.7	361.3	370.0	-352.6
Poultry (meat)	31.5	3.7	35.2	27.8
Live Animals	42.9	272.8	315.7	-229.9
Oilseeds and Products	191.3	70.1	261.4	121.2
Vegetables and Prepared Vegetables	241.7	96.6	338.3	145.1
Sugar and Related Products	40.1	123.0	163.1	-82.9
Lumber (total)	390.0	3,728.0	4,118.0	-3,338.0
Softwood Lumber	90.2	2,804.4	2,894.6	-2714.2
Edible Fish and Products	116.5	1,020.0	1,136.5	-903.5

SOURCE: Staff calculations from U.S. Department of Agriculture, Foreign Agriculture Trade of the United States (Washington, D.C., 1986).

1. Excludes lumber, fish and fish products

- Health and Inspection Requirements (animal and plant health standards, meat, fruit and vegetable inspection, pest control, packaging and labeling, veterinary drugs, and food additives);

- Access Barriers (grain licenses, and quotas on meat, poultry, sugar and grain).

Despite this broad negotiating agenda, agricultural economists in the United States, including trade specialists with the U.S. Department of Agriculture (USDA) and in the private sector, do not expect the agreement to create significant trade expansion between the two countries. Estimates include an increase of about $300 million in bilateral trade and benefits affecting up to half of all U.S. food and agriculture exports to Canada.

Tariffs

U.S. and Canadian tariffs on agriculture imports are generally low. One exception is Canada's seasonal duties on imports of fresh fruits and vegetables. The FTA would phase out regular and seasonal tariffs on agriculture products over ten years, beginning January 1, 1989, when the agreement would take effect. For 20 years after that date, either country would be allowed to impose a temporary duty on fresh fruits and vegetables if the import price fell below a certain average annual level and imports threatened the domestic industry. However, the temporary duty plus the general duty could not exceed the original duty--the Most Favored Nation (MFN) rate.

Subsidies

Domestic agriculture policies and programs, rather than tariffs, have caused the most trade distortion on both sides of the border. Therefore, the steps the FTA would take toward removing non-tariff barriers are more critical to the long-term picture for agriculture. Canada and the United States agreed to eliminate export subsidies on agriculture goods shipped between the two countries. However, for some products such as grain the FTA stipulates that certain conditions must be met by one party before the other party removes its subsidies.

Both countries recognize that subsidies and other contentious agriculture trade barriers must be addressed in a multilateral context. Therefore, they agreed in the negotiations to work together in the upcoming Uruguay Round of GATT to remove both direct and indirect subsidies that distort trade. The U.S. Trade Representative Clayton Yeutter stated that such barriers to agriculture represent the most challenging task in the Uruguay Round of GATT negotiations, currently underway.

Technical Barriers

In general, U.S. agriculture, food and beverage products are subject to much higher health standards and inspection requirements in Canada than Canadian products face when entering the United States. Under the FTA, the United States and Canada would seek to harmonize their health, labeling, and packaging standards that apply to each other's agriculture products. Harmonizing standards would include, among other steps, establishing equivalent

accreditation procedures for inspecting goods; harmonizing requirements for listing nutrition and ingredients on products; and standardizing container specifications such as can size. A particularly contentious restriction, Canada's 30-day quarantine on hog imports from the United States, which has effectively barred U.S. exports of slaughtered hogs, also would be eliminated. Removing these technical barriers probably would create significant export opportunities, particularly for small and medium-size companies who often lack the in-house capability to deal with the red tape involved in meeting technical requirements of other countries.

Effects of FTA on Agriculture Commodities

Meat and Live Animals

This sector represents the greatest portion of bilateral trade in agrifoods. The United States is a large net importer of beef from Canada, importing 88,400 metric tons of beef and veal from Canada in 1986 while shipping only 6,700 tons north. An even wider disparity is found in pork trade, with the United States importing 212,000 metric tons of pork from Canada, and exporting only 3,000 metric tons to Canada.

In many North American agriculture sectors, the United States holds the market power because of its relative size, making Canada the price taker in agricultural products. This is particularly the case for beef and pork. The U.S. market accounts for over 80 percent of Canadian shipments of meat and live animals. Together with poultry, animal products account for almost half of total agriculture goods Canada ships to the United States. Despite this trade imbalance, agriculture economists maintain that meat is one sector in which removing restrictions should provide significant export opportunities for both countries.

Within the region, meat is the number one Canadian agriculture import product of New York, Pennsylvania, Ohio, Illinois and New Jersey. While all the states in the region are net importers of meat from Canada, Michigan is the only state that exports a significant amount of meat to Canada and also enjoys a relative balance in meat trade, exporting $23.5 million and importing $28.5 million in 1986.

To achieve the goal of increasing market access, both countries agreed to exempt the other from its "countercyclical" beef import laws. These laws limit imports from all foreign suppliers when domestic beef supplies are adequate and allow increased imports when domestic supplies are low. Under the agreement, if only one party imposed quantitative import restraints on meat from third countries, it also could apply those restrictions to meat from the other party. These restrictions would be allowed only for a period sufficient to prevent trade distortions resulting from a possible surge of meat imports from that party. With respect to the controversy surrounding hog trade, Canada would still be subject to U.S. countervailing duties on live hogs, at the same time it would remove its 30-day quarantine, as mentioned earlier.

Horticulture Products

Whereas animal products are Canada's leading commodity shipped across the border, fresh fruits and vegetables comprise about half of U.S. agriculture products exported to Canada. Removing Canada's seasonal tariffs on horticulture goods should result in a boon in shipments of vegetables and fruit and horticulture products from the Region, in particular from Massachusetts, Michigan, New Jersey, Maine and Pennsylvania, and Illinois. Similarly, some U.S. tariffs are higher in the growing season; with their phaseout over ten years, Canadian exports of fruit and vegetables to the region would likely increase as a result of the FTA.

Canadian potato exports to the Northeast remain a contentious issue. In 1983, the Maine Potato Council alleged that Canada was selling potatoes in the United States at less than fair market value (dumping), and filed a petition against Canada. The following year the U.S. International Trade Commission ruled that no injury had occurred as a result of dumping. The Council appealed the ITC ruling with the U.S. Court of International Trade. The dispute remains unresolved, and state officials in Maine assert that Canada continues dumping potatoes in the state, which sets prices for potatoes in the northeastern market at an artificially low levels. The FTA does not address this issue.

Grain

Although Midwest states are major producers of grain and by-products such as cereals, feed and fodder, the United States has consistently recorded a trade deficit with Canada in grains and feed during the 1980s. Minnesota leads the region in shipments to Canada of grains and grain products, followed by Illinois and Ohio. In dollar value, grain and related products are the number one agriculture export to Canada for these states as well as Indiana and Iowa. On the import side, New York is by far the largest market for Canadian grain shipments, followed from a distance by Vermont, Wisconsin, and Minnesota.

Grain has proven to be one of the more contentious areas in bilateral agriculture trade. Although grains and feed do not represent a large portion of agriculture shipments between Canada and the United States (about 13 percent in 1986), they have become a focus of debate chiefly because of two restrictive Canadian policies: transportation subsidies and import licenses. Under the authority of the Western Grain Transportation Act, the Canadian government subsidizes an estimated 80 percent of the transportation costs for moving grain grown in the Prairie provinces to ports for export in Vancouver, Thunder Bay, Prince Rupert and Churchill. According to a 1987 report by the Congressional Research Service, these transportation subsidies have become the single largest subsidy payment made to Canadian agriculture.

Under the FTA, the Canadian government would no longer subsidize grain transported to the United States through western ports but would be allowed to continue subsidizing shipments of grain through eastern ports, including Thunder Bay, the main port through which wheat enters the United States. Most of this wheat goes to flour mills located in the East.

The second major concern of U.S. grain producers is Canada's import licensing system operated by the Canadian Wheat Board (CWB), a Crown corporation with authority to buy, sell and transport wheat, oats and barley.

The CWB grants licenses for grain imports only if a product is not sufficiently available domestically. Since both countries produce grain in excess of domestic demand, this licensing system serves as a strict barrier to U.S. grain.

The FTA would eliminate Canada's import licensing requirements provided that the U.S. government reduced its subsidies for wheat, oats, and barley to an equal or lower level than Canadian government subsidies for those grains. In other words, these Canadian restrictions would continue until the United States lowered its subsidies to Canadian levels. Several U.S. grain groups have voiced opposition to this provision, asserting that it provides a loophole for Canada to continue restricting grain imports from the United States. In addition, the United States pledged that it would not invoke Section 22 of the U.S. Agriculture Adjustment Act of 1933 unless Canada substantially changed its support. Section 22 gives the president authority to place quotas and fees on imports that materially interfere with any price support or stabilization program for agriculture products. The FTA would provide Canada with similar rights.

Poultry and Eggs

The United States exports far more poultry and poultry products to Canada than it imports. In 1986, U.S. producers shipped 21,000 metric tons ($31.5 million) to Canada, while Canada shipped slightly over 2,000 metric tons ($3.7 million) south. Bilateral trade in eggs is more balanced, with U.S. exports valued at $13.9 million and Canadian egg shipments worth $9 million.

In addition to import quotas, Canada uses a supply management system to control U.S. shipments of poultry and eggs and to maintain high prices for Canadian producers. The U.S. negotiators sought to eliminate this program but were unsuccessful. However, Canada agreed in negotiations to make a one-time increase in its global import quotas for these products. The quotas would be raised to the annual average of actual shipments during the past five years, which should provide a net benefit for U.S. producers.

Dairy Products

Similar to other agriculture products, the FTA would reduce tariffs on all dairy products. However, agriculture economists maintain that removing tariffs would have relatively little effect on dairy trade since quotas function as the more restrictive barrier to dairy products. Nevertheless, subsequent to negotiations, the Canadian government announced that lowering tariffs would remove its effective protection for the domestic dairy market. To compensate for this loss, Canada placed ice cream and yogurt on its import control list, which requires the Canadian Dairy Commission to issue an import license before a product can be imported.

According to U.S. dairy industry officials, this new restriction maintains the status quo since the United States, like most developed countries, does not export significant quantities of dairy products. Nevertheless, this action has invoked strong criticism in the U.S. Congress because it neutralizes the agreement's liberalizing provisions on dairy products. Moreover, adding these products to Canada's import control list reinforces questions raised by actions Canada has taken in other sectors, specifically, the degree to which Canada is sincere in liberalizing trade with the United States.

Sugar

The agreement would not alter the U.S. sugar program allowed under Section 22. However, beginning in 1989, the U.S. would no longer impose import quotas on Canadian agriculture products that contain 10 percent or less sugar, quotas which the United States has applied to Canadian products since 1985. Removing these quotas would benefit such Canadian export goods such as bread, soft drinks and pie fillings. In addition, the United States would not be allowed to introduce a new quota or import fee on any product from Canada containing 10 percent or less sugar.

The final text of the FTA exempts sweeteners from U.S. quotas, which the October 4, 1987 draft agreement did not do. For example, a Canadian product that contains 7 percent sugar and 40 percent sweetener would be exempted from U.S. quotas.

Fishery Products

The United States is the largest market for Canadian exports of fishery products, and Canada is the second largest market for U.S. fish, after Japan. Bilateral trade in fish products is heavily dominated by Canadian exports. According to the Congressional Research Service, Canada exported $1.02 billion in fish and fish products to the United States in 1986; Massachussets alone accounted for over 60 percent ($621 million) of these shipments. U.S. shipments, in comparison, valued only $117 million in 1986. Although the volume of Canadian fish exports dwarfs U.S. shipments, Massachusetts, New York, Maine and Illinois each exported over $10 million in fish or fish products to Canada in 1986.

Bilateral trade in these commodities has grown 33 percent since 1982; however, most of this expansion has been in Canadian exports, while U.S. exports to Canada have remained at 1982 levels. Shrimp and salmon are the leading U.S. fish exports north, and Canada exports primarily cod, flatfish, salmon, crab, lobster, and scallops south.

Although the FTA would eliminate tariffs on fish products in immediate, five and ten-year phase-out stages, it would provide Canada an opportunity to establish a new, and potentially significant problem for states in the region with commercial fish industries. The FTA contains a provision that would allow East Coast provinces--New Brunswick, Newfoundland, Nova Scotia, Prince Edward Island, and Quebec--to prohibit the export of unprocessed fish. This provision is identical to West Coast provincial laws, which have been used to prohibit the export of unprocessed herring and pink and sockeye salmon. The United States filed a complaint in the GATT against this West Coast restriction and recently won a favorable ruling.

However, the western provinces responded to the GATT ruling that they will accept the panel's decision provided that fish caught in Canadian waters are landed in Canada for resource management purposes such as counting and weighing. The practical effect of this new restriction is to ensure that the fish are processed in Canada, the original reason the United States filed the case against Canada. It is impractical from an economic standpoint to reload fish to process elsewhere once they have been unloaded in Canada. The FTA

would allow the eastern provinces to duplicate restrictions that the United States has already found unacceptable in the western provinces, which would be detrimental to fish processors in the Northeast.

The GATT case is important to the U.S. East Coast fishing industry for the following reason. If the western provinces are allowed to implement this new resource management restriction, it would set an unwanted precedent for the eastern provinces in restricting exports of unprocessed fish.

Federal fishery officials in the United States also remain concerned over Canadian subsidies of fish processing facilities in Canada. One government official noted that perhaps the biggest concern for American fish processors such as clam and sardine processors--import industries in the Northeast--is their competitive position if tariff protection were removed. These processors would find it difficult to compete against artifically low prices in Canada caused by subsidies.

7. ALCOHOL PRODUCTS

Background

U.S. exports of alcohol products, in particular wine and beer, have faced a plethora of restrictions in the Canadian market. Provinces, rather than the Canadian federal government, control the sale and distribution of domestic and imported alcohol products. Provincial barriers are especially difficult to address because the United States can only negotiate with the Canadian federal government, which has the responsiblity of bringing the ten provinces into a binding agreement. Provincial Liquor Control Boards (LCBs), which serve as government monopolies in each province, control all retail practices for liquor, including the pricing, listing and distribution of a product.

A domestic or foreign company wanting to sell an alcohol product in a Canadian province must file an application with the LCB. Applications are reviewed, and those selected to be sold in the province are then "listed." For the most part, U.S. products are turned down--between 1982 and 1985, every application from U.S. wine producers was rejected. Listed products, including liquor produced locally and imported from other provinces and countries, are then "marked-up," or taxed in order to offset shipping, warehousing, marketing and related costs. Local alcohol products receive lower mark-ups than liquor from other provinces, and non-Canadian liquor is marked up the greatest. The LCBs also use discriminatory distribution policies to restrict the sale of imported liquor. Of the 9,000 licenses outlets in Ontario, only 619 sell imported products. The Quebec LCB forbids sales of imported wine and beer in supermarkets and grocery stores, where most of the province's wine and beer is sold.

These provincial practices have prevented U.S. companies from achieving sales worth millions of dollars in the Canadian market, directly affecting many of the 56 breweries and 387 wineries located in the Northeast and Midwest. While the FTA would achieve some successes in removing provincial alcohol barriers to wine and distilled spirits, it fails to address the prohibitive restrictions on imported beer.

Wine

Although Canada is the leading export market for U.S. wine, the industry faces the greatest number of obstacles among American alcoholic products competing in the Canadian market. Canada earmarks most European wines for the higher end of the market, which is more open to imports, while restricting American wines to the middle and lower-priced markets. In Ontario, the United States accounts for only 42 of the 570 imported wines listed. In 1986, France had 400 listings in Quebec, and Italy had 100, while the United States had only 21. Furthermore, while many stores will feature French or German wines prominently, American wines are usually placed in bins mixed in with wines from lesser-known importing countries.

Some provinces such as Ontario and British Columbia impose mixing regulations that limit the foreign grape content in domestically produced wines. Ontario has used such regulations to ban virtually all imported grapes for making wine. In addition, most of the LCBs order very small shipments of U.S. wines, which limits sales and profits, while maintaining high transportation costs. The inequity of these provincial restrictions is more glaring in view of the fact that Canadians are consuming 47 percent more wine than they were five years ago, during which time the U.S. share of the Canadian wine market has actually declined.

Provisions of the FTA Affecting Wine and Distilled Spirits

The Canadian government agreed under the FTA to grant U.S. wines and distilled spirits national treatment with respect to provincial mark-up, listing and distribution practices. The agreement requires that listings by the provincial LCBs be transparent and non-discriminatory, and not serve as disguised barriers to liquor imports as they have in the past. And, although the FTA calls for an end to Canada's discriminatory distribution practices, Canada would be allowed to maintain or introduce distribution restrictions on imported wine or distilled spirits, provided the restrictions conformed with national treatment requirements under the agreement. In addition, Quebec would be allowed to retain its requirement that only wine bottled within the province be sold in grocery stores.

Discriminatory mark-ups on imported wine would be phased out over seven years, with 25 percent reduction in both 1989 and 1990, followed by 10 percent annual reductions during the following five years. However, the LCBs would be allowed to impose a higher mark-up on imported wine if they could show an audited difference between the administrative cost of service or handling of the U.S. and Canadian product. According to the U.S. Wine Institute, Canadian provincial officials have made statements that "the administrative service cost provision in the FTA will allow the LCBs to continue to restrict U.S. wine sales by imposing an administrative fee equal to the current discriminatory mark-ups." Such statements reflect the "wiggle room" left in the FTA and the necessity to obtain a commitment from Canadian provinces that their policies and practices affecting U.S. goods and services will follow the spirit as well as the letter of the agreement. If Canada does remove its restrictions on wine, U.S. wine industry predicts that it could increase its sales to Canada by $40 to $60 million annually at the end of the seven-year implementation period.

The FTA would eliminate Canada's higher mark-ups on distilled spirits on January 1, 1989. In addition, the agreement would remove any provincial blending requirements, which require that distilled spirits imported in bulk from the United States for bottling in Canada be blended with Canadian distilled spirits. Similar to the wine provisions, distilled spirits would be given national treatment in Canada under the agreement. Every state in the Northeast and Midwest imports whiskey or other distilled spirits from Canada. In fact, it is the number one Canadian agriculture import for Maryland, Connecticut, and Indiana, while Michigan dwarfs the rest of the states in the value of Canadian whiskey it imports. Only a few of the states export whiskey to Canada. Therefore, the FTA's liberalizing provisions affecting distilled spirits would not have as great an impact on the region as the reduction in barriers to U.S. wine.

Beer

Canada's commercial policies affecting its domestic beer industry represent one of the best examples of Canadian trade protection and the consequential economic inefficiency. Similar to their treatment of wine, the LCBs apply discriminatory policies in listing, distribution, and mark-ups on imported beer. Provinces further require that beer sold locally must be brewed in the province. This restriction even applies to other provinces-- beer produced in one province cannot be sold in another province. For example, Moosehead, made in Nova Scotia, cannot be sold in Ontario unless it establishes a brewery in Ontario. These restrictions have balkanized the Canadian beer industry, resulting in many small, inefficient breweries, which translates into higher beer prices and a greater need for protection from breweries that can produce on a large scale. Canada, recognizing the enormous inefficiency created by its barriers, acknowledged that the entire industry would have to be rationalized from 39 breweries to 11 or 12, in order to become competitive.

To circumvent these restrictions, major American brewers such as Anheuser-Busch, Coors, and Miller established joint ventures with Canadian brewers or set up breweries in Canadian provinces where they wished to sell. This shift in production from the United States to Canada has caused a loss of jobs in many towns and cities in the Northeast and Midwest, where 45 percent of all U.S. breweries are located. The smaller brewers such as Heileman, Stroh, and Genesee, which do not have licensing agreements with the LCBs, are shut out of the Candian market. These smaller American brewers sought the removal of Canadian restrictions during negotiations. Their efforts were unsuccessful, however, in part because the larger American brewers that have already gained access to the Canadian market were not supportive of the market-opening effort of the smaller brewers.

The FTA does not address Canada's barriers to beer, despite their flagrant inequities. Meanwhile, Canadian beer imports to the United States have grown dramatically in the past few years.

The European Community (EC) filed a complaint against Canada in 1985 for its discriminatory treatment of wine, beer and distilled spirits. The GATT panel recently released its final report in favor of the EC, stating that Canada's retail practices affecting alcohol imports--including interprovincial restrictions on beer--violate national treatment under GATT. The Canadian government requested that it be allowed 12 years to phase out its barriers to alcohol imports, which the GATT has rejected. In response, the (then) Canadian Trade Minister Pat Carney responded that Canada will remove the discriminatory restrictions at a "glacial pace." The GATT case brought by the EC against Canada raises at least two important questions relating to the Free Trade Agreement:

- What concessions did the United States make during negotiations to obtain Canada's promise to remove its restrictive policies and practices on wine and distilled spirits if Canada will be required by the GATT to remove these barriers anyway?

- In view of Canada's resistance to the GATT decision, what guarantee does the U.S. industry have that the provinces will abide by the liberalizing trade provisions agreed to in the FTA?

8. ENERGY

Energy trade between Canada and the United States is relatively free of trade barriers. For the most part, energy exports move in one direction--south. Canada is the United States' largest foreign supplier of oil, natural gas, and electricity, and a major supplier of uranium.

Electricity

Canada enjoys an enormous comparative advantage over the United States in electricity, measured by both abundance and cost of production. Canada's electricity cost advantage in residential, commercial, and industrial uses is a result of its abundant hydropower, the lowest-cost method of producing electricity. In fact, Canada has the lowest-cost electricity while the United States has the highest-cost electricity of major industrialized countries.

Since the 1970s, the United States has imported from Canada significantly more electricity than it exported to Canada. According to an April 1986 report by the U.S. General Accounting Office, electricity imports from Canada have increased sixteen-fold since 1970. This growth is mostly a result of the cost advantage in buying Canadian electricity. Utilities in the United States have found that they can buy Canadian electricity more cheaply than they can generate it in their own facilities. In 1985, hydropower accounted for 63 percent of total Canadian electricity exports to the United States. Quebec, British Columbia and Manitoba are the richest Canadian provinces in hydropower. Combined, these provinces shipped 71 percent of Canadian electricity exports to the United States in 1985.

Reliance in the Northeast-Midwest on Canadian Electricity

New England states, combined with New York and New Jersey, account for between one-third and one-half of current Canadian electricity exports to the United States, according to the U.S. Department of Energy's Energy Information Administration. New England depends on Canadian electricity for 7 percent of its electricity consumption, compared to 5 percent for the Midwest. Within New England, Maine relies the heaviest on Canadian electricity, with imports valued at $107 million in 1986, or 14 percent of total state imports from Canada. Massachusetts and Vermont imported $92 million and $75 million, respectively, in Canadian electricity that same year. New York imports the greatest volume, with shipments valued at $375 million in 1986.

The Energy Information Administration also reported that New England experienced the fastest growth in Canadian electricity imports of any U.S. region between 1981 and 1985. These imports increased at an average annual rate of 16 percent in New England, compared to 8 percent in the North Central region and 5 percent in the New York/New Jersey region. U.S. electricity imports are expected to grow moderately between 1985 and 1995, by about 3.1 percent per year, with most of this growth expected in New England, the Pacific Northwest, and the West.

Readily available cheap hydropower is particularly important for energy intensive industries located in the Northeast. Basic industries that rely heavily on electricity include chemical processors, fertilizer manufacturers, pulp, paper, and lumber mills, food processors, foundries, metal casting plants, optical fibre manufacturers, and yarn mills. Most of these industries, for which electricity accounts for a large component of production costs, are located in New England. Some face electricity costs as high as 10 to 20 percent of their total value of shipments. Increased long-term access to Canadian hydropower would expand the ability of these basic industries, which have experienced substantially more import competition in recent years, to be price-competitive in domestic and international markets.

Natural Gas

Bilateral trade in natural gas has had a frustrated political history. During the development of the interstate pipeline system, the United States tried to restrict Canadian gas imports. It reversed this policy after 1973, when Canada decided to impose restrictions on its gas exports. In the mid-1980s, Canada recognized that the United States has the greatest market potential for developing Canadian gas resources, and reversed its restrictive policies. With proven gas reserves of nearly thirty times its current internal consumption, Canada's National Energy Board has now approved doubling its exports.

Heavy U.S. reliance on Canadian natural gas is growing. According to the National Energy Board, gas imports from Canada, assisted by low prices, grew 33 percent to 989 billion cubic feet in 1987. These sales represented 5.4 percent of the 16.9 trillion cubic feet United States bought that year. Gas analysts expect the Canadian share of the U.S. market to reach 7.1 percent in 1988, and possibly as high as 10 percent in the 1990s.

While gas exports to the Midwest have remained stable, New England has begun to import significant amounts of Canadian natural gas in 1988, and this is likely to increase. The U.S. Federal Energy Regulatory Commission received applications for 31 projects in the Northeast in January 1988 alone, many of which involve the use of more gas from Canada. The American Gas Association asserts that additional gas supplies to the Northeast would be beneficial both from an economic and national security standpoint because they would displace an estimated 175,000 barrels of imported oil daily by 1990.

Energy Provisions of the FTA

Because bilateral energy trade is relatively free of barriers, the primary objective of the FTA is to ensure long-term, nondiscriminatory access to North American energy resources, with prices set by market forces. The energy provisions of the agreement also are intended to prevent either country from introducing policies that would impose restrictions on exports or imports of energy such as quotas, taxes, or price requirements. Only in narrowly defined circumstances of short supply or under certain national security considerations would either country be allowed to restrict energy exports to or imports from the other country.

In addition, neither country would maintain nor introduce any tax or duty on an energy export to the other country unless it were levied on the same energy good for domestic consumption. The FTA also provides for bilateral consultations between the Canadian National Energy Board and the U.S. Energy Regulatory Agency or the Federal Energy Regulatory Commission if any energy regulatory actions taken by one country could lead to discriminatory treatment of the other country's energy goods.

In the electricity sector, the agreement would prohibit Canada from applying "surplus tests," which have been used in the past to limit U.S. access to Canadian electricity supplies, and "least-cost" energy alternative pricing practices. Canada has used this policy, according to a recent analysis by the Institute for International Economics, to increase the price of Canadian electricity exports to the United States.

The uranium provisions of the FTA require Canada to eliminate its uranium processing restraint policy, which mandated that under new contracts all uranium be upgraded in Canada prior to exportation. Removal of this requirement would allow U.S. uranium processors, primarily Allied Signal and Kerr-McGee Corp., to compete against Canadian uranium processors in upgrading North American uranium. In contrast to U.S. processors, the U.S. uranium mining industry has expressed strong opposition to the FTA because it would exempt Canada from an Atomic Energy Act provision that requires the Department of Energy to restrict the enrichment of foreign uranium for use in U.S. reactors if it finds the domestic uranium industry to be non-viable. The U.S. mining industry argues that it is already facing hardship because of depressed world uranium prices, and exempting Canada from the Atomic Energy Act provision would only worsen its competitive position.

Under the agreement, the United States would exempt Canada from its prohibition on exports of Alaskan oil, allowing a maximum of 50,000 barrels a day to be shipped to Canada, provided the oil is carried on U.S. tankers. This volume of oil is small compared to Canadian exports of crude oil to the United States, which have increased steadily in recent years. Canada now supplies about 14 percent of U.S. oil imports, making Canada the largest supplier. Most of the Alaskan oil exports would serve British Columbia, which is relatively isolated geographically from its oil-rich neighbor, Alberta.

One disappointing feature of the FTA from a U.S. vantage point is that it would grandfather Canada's investment restrictions on energy exploration. For example, a foreign company may freely explore Canadian land for oil, but it must enter into a joint venture with a Canadian company before extracting the oil.

Implications for the Region

If both countries fulfilled their obligations under the agreement, it would create an investment climate less prone to protectionist energy policies and provide a clearly defined and predictable framework for bilateral trade in energy. In view of the dominant role Canada plays in meeting U.S. energy needs, securing long-term access to Canadian resources and equal treatment for suppliers and consumers would be one of the strongest benefits for the United States and the Northeast-Midwest region.

Removal of the 12 percent U.S. duty on petroleum products would reduce prices for many Midwest states including Illinois, Michigan and Ohio, whose energy-intensive industries rely heavily on petroleum imports from Canada. Similarly, improved access to Canadian gas would reduce costs of states in the Northeast and Midwest, which could rely increasingly on gas imports from Canada as an important alternative energy source. The U.S. Deptartment of Energy asserts that once the facilities to transport gas are built, Canadian gas exports could increase substantially and potentially displace oil imports from OPEC nations. The FTA would facilitate this shift in dependence from OPEC to North American energy supplies.

9. SERVICES AND INVESTMENT

Services

Background

Services account for an estimated 70 percent of the U.S. economy and represent the largest portion of the Canadian economy as well. Yet no internationally agreed upon principles exist to govern service trade or investment. The FTA would make great strides in these two sectors by setting some parameters for the treatment of services and investment in a multilateral framework, in particular, the ongoing Uruguay Round of the GATT trade negotiations.

In contrast with trade in merchandise goods, the United States runs a considerable surplus in services trade with Canada. In 1986, the United States imported $7.23 billion in services from Canada, while exporting $18.9 billion, which translates into an $11-billion U.S. trade surplus.

As a major center of services in high technology, finances, engineering, computer software, and management consulting, to name a few, the Northeast-Midwest region contributes a large share of the $25 billion services trade with Canada. Unfortunately, services data are not available on a state-by-state basis. But using a U.S. Department of Commerce calculation made on a per-capita basis, Massachusetts, for example, accounted for about $590 million in exports of services in 1986. Major service industry employers in the state include business, health, educational, legal, membership organizations and personal services.

The FTA's provisions in services primarily address the need for establishing national treatment, which means that Canada and the United States would treat service providers from the other country no less favorably than it treats domestic service providers. Services covered by this provision include those mentioned above plus services in agriculture, mining and construction, distributive trade, insurance, real estate, tourism, trucking and other commercial sectors.

Banking and Financial Services

Banking and other financial services such as insurance, constitute the largest bilateral trade in services between the United States and Canada. This part of the services industry faces the most complicated maze of goverment regulation, both on domestic and foreign fronts. In the United States, much of the regulation evolved as a response to the devastating events in the 1930s. After the stock market crash of 1929, Congress enacted the Glass-Steagall Act in 1933, which separated banking and commerce activities in order to reduce the possibility of bank failures occurring on a massive scale. Canada maintains a similar separation of banking and commerce through their "four pillars" approach to separating banking, insurance, trusts, and securities dealing.

Regulations on both sides, while necessary to preserve soundness in the banking system and confidence in the economy, can also serve as non-tariff barriers to competition. Industry representatives on both sides of the border have been hopeful that the FTA, in conjunction with other deregulation efforts in the U.S. Congress and in the Canadian Parliament, could provide new opportunities to expand banking and financial services activities in both countries.

Background

Consistent with trade patterns in most other sectors, the United States has been more open than Canada in allowing foreign banks to establish and operate. Foreign banks in the United States, after registering with the Department of Treasury, can operate on the same terms as U.S. banks--there are no additional capital requirements or other restrictions. Foreign banks also have equal access to discounted federal funds and to the Federal Reserve clearing system. In some respects, foreign banks have advantages over U.S. banks. For example, the 1978 International Banking Act contains a "grandfather" clause that allows foreign banks to have multistate branches, an advantage that, in general, is denied to U.S. banks by the McFadden Act.

In contrast, Canada has restricted significant foreign investment in its banking sector, including control of Canadian banks. The Canadian government fears domination of its smaller and less sophisticated banking system by foreign investors who enjoy greater capital reserves and leverage to compete for a customer base as well as for the best employees and equipment. In an effort to preserve the sovereignty of its banking system, Canada has placed limitations on the degree of foreign ownership of banks operating in Canada. No foreign individual may own more then 10 percent of a Canadian bank and no Canadian bank can be more than 25 percent foreign-owned. Canada has made some progress in allowing foreign investment over the last few years. Under Prime Minister Trudeau, foreign investment in Canada was heavily restricted by the Foreign Investment Review Agency (FIRA). Prime Minister Mulroney has taken steps, including replacing FIRA with Investment Canada, to open this sector to foreign investors. Canada does maintain other restrictions on foreign banking activity, including limits on the number of branches. As an additional check, a review board must approve all charters to operate a bank in Canada.

In addition to the different degrees of restrictions to foreign banks, structural differences exist between the Canadian and U.S. banking systems. The primary difference lies in the degree of federal control. In Canada, banks are chartered and regulated at the federal level only. In the United States, while there are federal banking regulations, individual states may also charter banks and can impose additional restrictions, such as limits on the number of branches.

Both countries are currently considering domestic deregulation of their banking industries. In the United States, regulators have been exploring the possibility of expanding the allowable activities under the Glass-Steagall Act. Expanded activities might include the ability to underwrite securities, sell insurance, and other "non-bank" activities. The Senate is pushing to allow commercial banks to move into the investment bank arena and has also passed legislation to allow small state banks to sell and underwrite insurance. The House has been resisting both of these measures, but some reform seems imminent.

Provisions of the FTA

The primary objective of the FTA in the area of financial services would be to allow Canadian and U.S. companies to operate on an equal footing in both countries. Canada would give national treatment to U.S. banks and the United States would provide the same for Canadian banks. National treatment would remove restrictions, such as the limitations on the number of branches that U.S. banks can operate in Canada. The rule requiring that banks operating in Canada have no more than 25-percent foreign ownership would be eliminated under the FTA. However, the rule prohibiting any individual from holding more than 10 percent of larger Canadian banks would still apply. This provision was retained to allow the Canadians a measure of control and sovereignty over their banking system; they were concerned that larger U.S. investors could dominate the Canadian system. The Canadians also would pledge to refrain from discriminatory practices in their review of U.S. requests for charters.

As both countries pledge to continue to liberalize their domestic banking regulations, they would assure the other country of equal treatment under the new regulations. If, for example, the list of permissible activities under the Glass-Steagall Act is expanded for U.S. banks, Canadian-owned banks in the United States would be afforded the same privileges.

One aspect of the agreement which would affect Canada and the United States differently is that the provisions of the FTA would not preempt "political subdivisions of the other Party." As previously mentioned, individual U.S. states may impose additional restrictions that would not be affected by the FTA. Canadian provinces do not have the same authority to place additional restrictions on banking activities. While this may appear to be a smaller gain for Canada, Canadian banks have never faced serious competitive barriers in the United States.

Currently, commercial banks in the United States can own, sell or underwrite U.S. government or municipal securities. The FTA would expand the category of securities which banks may handle to include Canadian municipal and government securities. This expansion could provide new market opportunites to Canadian and U.S. banks operating in the United States. In addition, Canadian banks would receive a unique benefit from the FTA. Multistate branches which were permitted prior to 1978 would be "grandfathered" indefinitely.

The financial services chapter of the Agreement is different from other chapters in that any disputes would bypass the binational dispute panel. Instead, disputes would be settled through discussions between the U.S. Treasury Department and the Canadian Department of Finance.

Effect of FTA on U.S. Banking Industry and Consumers

New York, with its heavy concentration of banks and financial institutions, would be most likely to feel the possible effects of liberalized trade in financial services. Banking activities in border states also might expand under the FTA because of the close proximity to Canada.

The most likely impact of the FTA on consumers on both sides of the border would be increased competition between banks, especially for medium-sized loans and for deposit customers. Greater competition could translate into savings

for consumers in loan rates and service fees. It also may translate into higher rates paid on deposits. Through the liberalization of other banking regulations, banks may also be able to provide increased service to their customers.

The U.S. banking industry would not likely experience any major domestic changes resulting from the FTA. The Canadian system is small and would not attain controlling interests of large U.S. banks. At the same time, U.S. banks in Canada are not likely to experience major market expansion. There may be increased access to depositers and borrowers but tight competition would limit the profit potential. The initial opening of the Canadian market to U.S. banks in 1980 did not create significant new opportunities. It seems unlikely that the FTA would significantly affect the financial services sector. At this time, U.S. bankers are focusing more attention on the impending deregulation of the domestic industry then to the U.S.-Canada FTA.

Investment

The FTA also would provide national treatment to new Canadian and U.S. investment in the two countries, which means providing equal treatment to investors in establishing, acquiring, selling business enterprises, and conducting business in the other country. U.S. restrictions on foreign investment are some of the most relaxed in the western hemisphere. In contrast, Canada, under the auspices of Investment Canada, the federal investment review agency, applies numerous restrictive and regulatory measures to control foreign investment, including the type of investment allowed, minimum equity requirements or performance requirements imposed on U.S. investors, and a review process used to approve investments.

Performance requirements encompass a wide range of policies, including a provision that an investor export a certain percent of goods or services, use a designated level of domestic content, or give preference to local goods or services. The agreement would prohibit the use of these kinds of restrictive policies. With an estimated 60 to 70 percent of Canadian manufacturing owned by U.S. interests, liberalizing Canada's investment practices would directly benefit current and potential American investors.

In addition, the FTA would gradually remove Canada's restrictive review process on the acquisition of existing businesses. Although Investment Canada would continue to review proposed direct acquisitions of a Canadian business to determine whether to permit the purchase, the FTA would raise the review threshold from $25 million to $150 million in constant dollars, over five years beginning in 1989. For indirect takeovers, the FTA would raise the review threshold ratably from $100 million beginning in 1989 until it was completely removal in 1992.

The failure in negotiations to establish principles for improving protection of intellectual property--including patents, copyrights, and trademarks--from infringement puts Canada at a disadvantage in attracting more U.S. companies (especially those engaged in research and development), since Canadian intellectual property protection is considerably weaker.

PART III. STATE TRADE PROFILES

10. OVERVIEW OF NORTHEAST-MIDWEST TRADE WITH CANADA

It has been estimated that over two million American jobs depend on U.S. exports to Canada. About 50 percent of these jobs are located in 12 states, nine of which are within the Northeast-Midwest region. In fact, the Northeast-Midwest exceeds all other U.S. regions combined in trade with Canada, both in terms of volume and value of exports and imports, as shown in Figure 1. Canada exported over $49 billion to the region in 1986, which represents 72 percent of total Canadian shipments to the United States. In turn, northeastern and midwestern states exported over $33 billion to Canada, accounting for 73 percent of total U.S. shipments north. The region recorded a $16-billion trade balance deficit with Canada in 1986. Table 3 summarizes Canadian trade with each state in the region.

As shown in Figure 2, the majority of the region's exports to Canada consist of manufactured and semi-manufactured goods such as auto parts, electronics equipment, machinery, aircraft engines and parts, measuring instruments, paper, and steel. In contrast, northeastern and midwestern states import from Canada primarily transportation equipment such as motor vehicles, and natural resource products, including fuels, minerals, newsprint paper, softwood lumber, and fish and fish products. The greatest portion of this bilateral trade is with Ontario, Canada's industrial heartland and manufacturing center.

Since U.S. firms already have an opportunity to achieve economies of scale by producing for the large domestic market, increased access to Canada would not likely promote production efficiency for the average American company, especially in view of the size of the Canadian market, which is roughly one-tenth the size of the U.S. market. Nevertheless, with an annual per-capita income of over $14,000, Canada offers an attractive market, particularly for U.S. firms located near the Canadian border, where an estimated 80 percent of Canadians live. For companies located in Cleveland, Buffalo, Chicago, or Detroit, for example, Ontario and Quebec are viable markets. With the removal of border restrictions as well as other non-tariff barriers and duties, the FTA could fuel enormous business activity for the region.

Figure 1

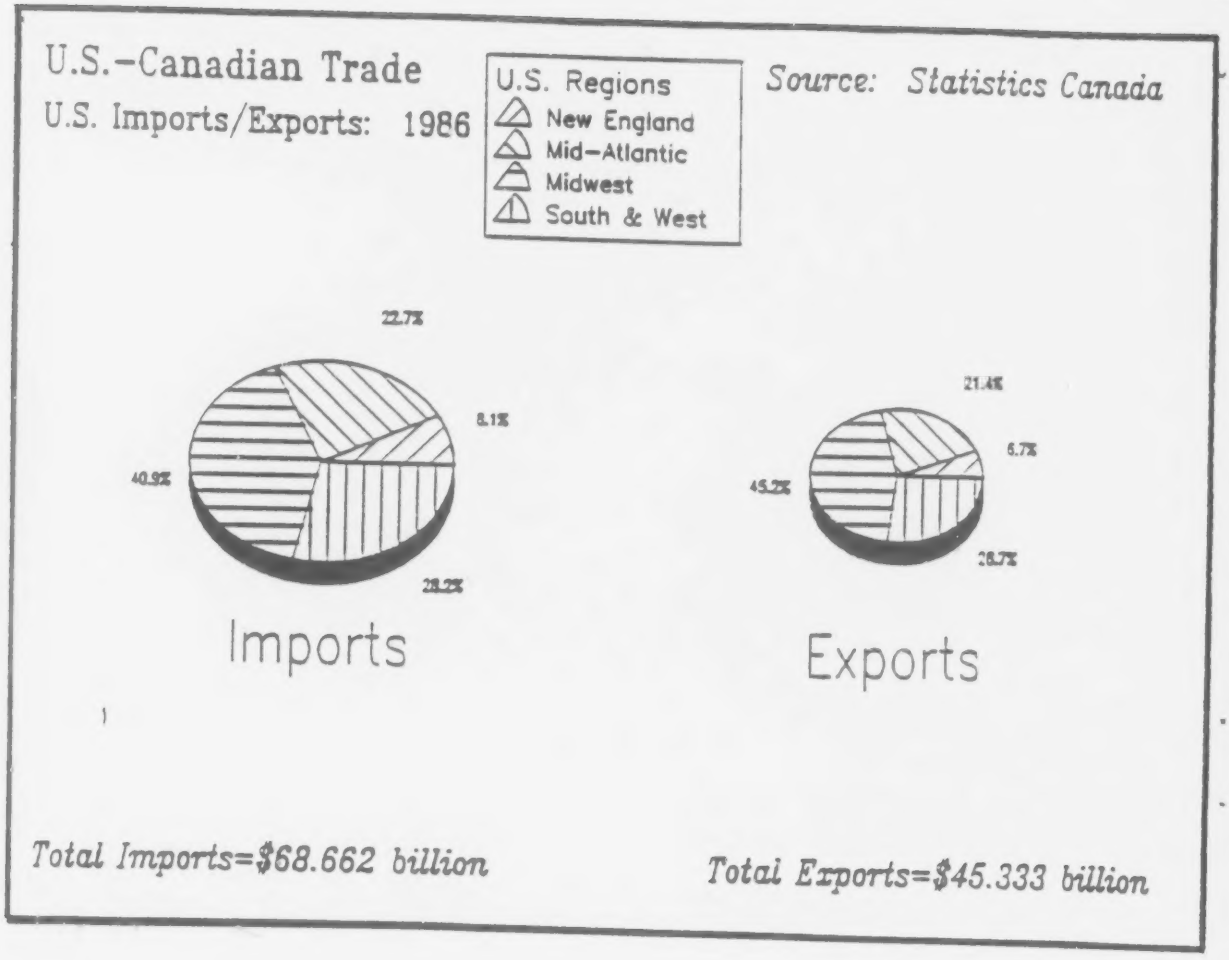
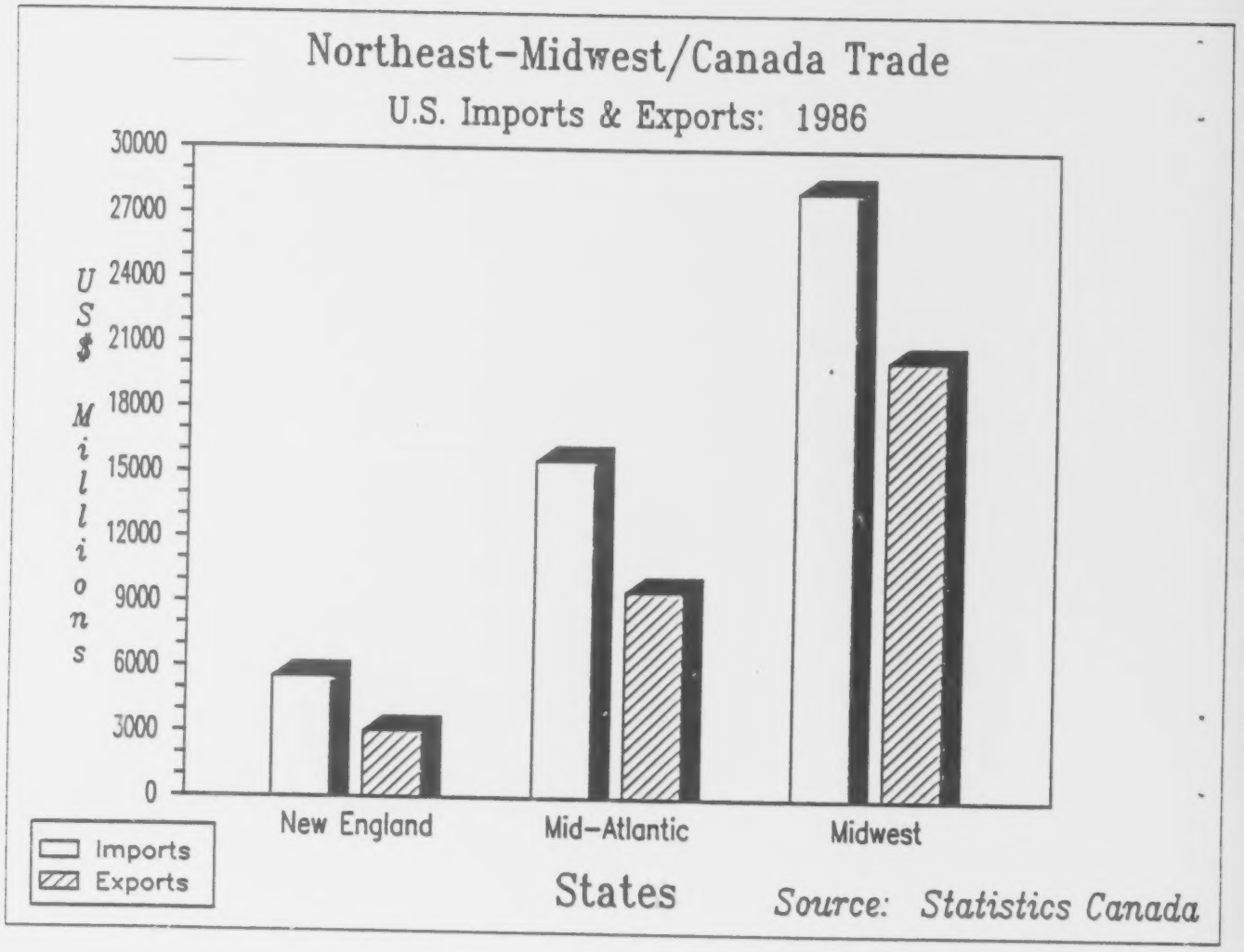

U.S.–Canadian Trade
U.S. Imports/Exports: 1986
U.S. Regions
New England
Mid–Atlantic
Midwest
South & West
Source: Statistics Canada
22.7%
8.1%
40.9%
28.2%
Imports
21.4%
6.7%
45.2%
26.7%
Exports
Total Imports=$68.662 billion
Total Exports=$45.333 billion

Table 3
Summary of Canadian Trade
with the Northeast-Midwest Region: 1986
(in millions of U.S. dollars)

Region and State	Canadian Exports to NE-MW	Canadian Imports from NE-MW	Total Trade	Trade Balance
New England				
Connecticut	850.4	830.7	1,681.1	-19.7
Maine	766.4	256.6	1,023.0	-509.8
Massachusetts	2,358.6	1,462.8	3,821.4	-895.8
New Hampshire	310.9	186.3	497.2	-124.6
Rhode Island	465.0	128.4	593.4	-336.6
Vermont	802.0	190.4	992.4	-611.6
Total	5,553.3	3,055.2	8,608.5	-2,498.1
Mid-Atlantic				
Delaware	251.3	390.6	641.9	139.3
Maryland	646.5	343.6	990.1	-302.9
New Jersey	1,480.2	1,315.7	2,795.9	-164.5
New York	11,149.0	5,553.9	16,702.9	-5,595.1
Pennsylvania	2,093.5	2,099.8	4,193.3	-6.3
Total	15,620.5	9,703.6	25,324.1	-5,916.9
Midwest				
Illinois	3,083.1	2,945.9	6,029.0	-137.2
Indiana	983.2	2,172.1	3,155.3	1,188.9
Iowa	273.7	482.7	756.4	209.0
Michigan	17,519.9	8,201.7	25,721.6	-9,318.2
Minnesota	1,907.3	782.9	2,690.2	-1,124.4
Ohio	2,990.7	4,431.6	7,422.3	1,440.9
Wisconsin	1,338.0	1,465.8	2,803.8	127.8
Total	28,095.9	20,482.7	48,578.6	-7,613.2
Northeast	21,173.8	12,758.8	33,932.6	-8,415.0
Midwest	28,095.9	20,482.7	48,578.6	-7,613.2
Northeast/Midwest	49,269.7	33,241.5	82,511.2	-16,028.2
U.S. Total	68,662.0	45,333.0	113,995.0	-23,329.0

SOURCE: Statistics Canada, International Trade Division (Ottawa, Canada, 1987).

Figure 2

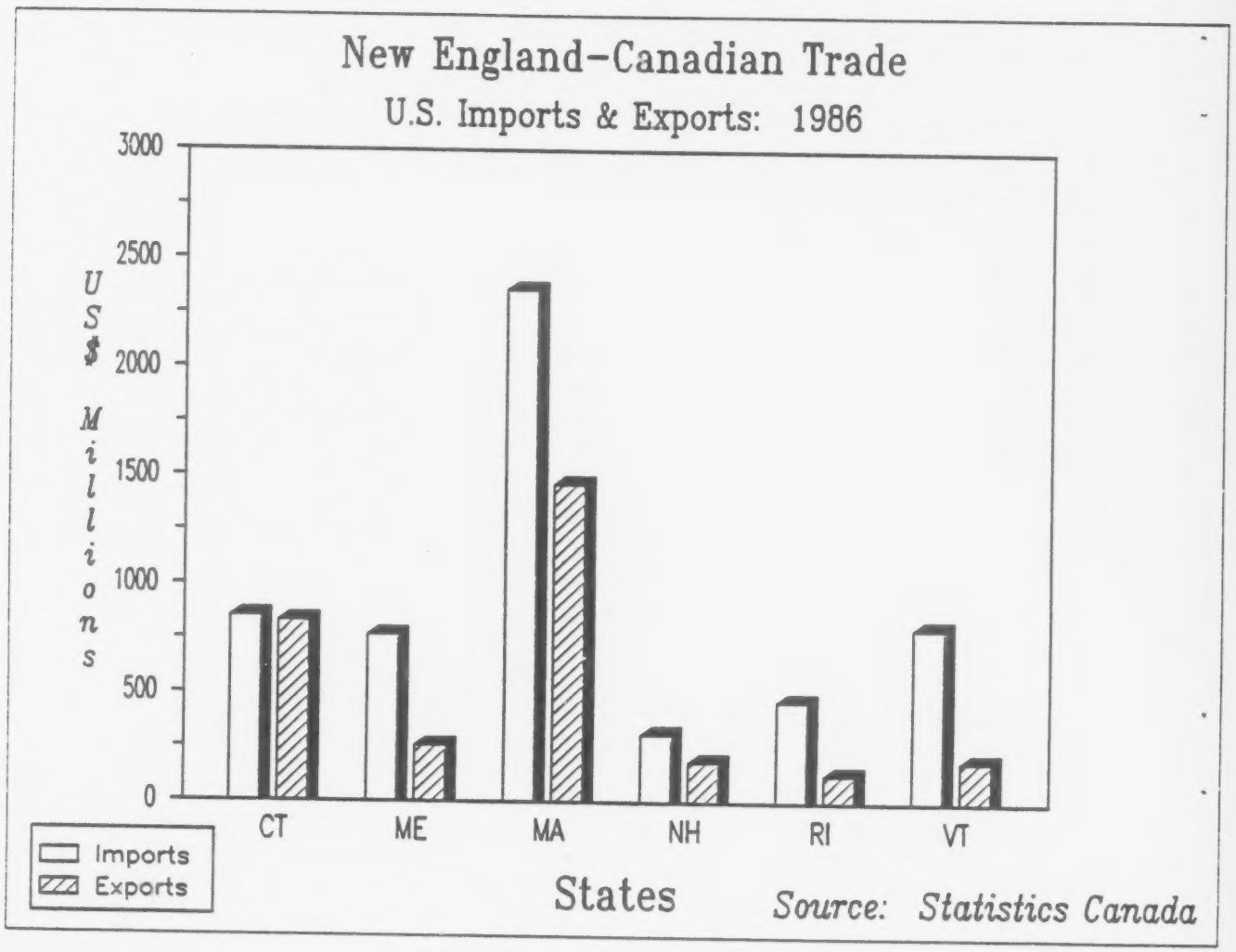

Northeast-Midwest/Canada Trade
U.S. Imports & Exports: 1986
US $ Millions
30000
27000
24000
21000
18000
15000
12000
9000
6000
3000
0
New England
Mid-Atlantic
Midwest
Imports
Exports
States
Source: Statistics Canada

11. NEW ENGLAND STATE TRADE PROFILES

The following profiles summarize each New England state's trading relationship with Canada. Based upon earlier analysis in this report, this section targets growth opportunities for selected sectors of each state as well as industries that may not benefit from the agreement or feel a strong impact. As shown in Table 3 and Figure 3, Massachusetts is the dominant trading partner with Canada of the six New England states. Although all six states record a trade deficit with Canada, Massachusetts and Connecticut export significant amounts of goods to Canada. Connecticut is the only state in the region that has close to a balance in export and import trade with Canada. Meanwhile, Maine and Vermont import more than double what they export to Canada.

The New England states exchanged $8.6 billion with Canada in 1986 (see Table 3). The region's strong reliance on Canadian imports means that state officials, business leaders, and manufacturers should take a close look at the potential effect of the FTA on product competition, services trade and general market conditions in New England in addition to examining how the agreement would remove barriers in Canada for New England products.

Figure 3


New England–Canadian Trade
U.S. Imports & Exports: 1986
US $ Millions
3000
2500
2000
1500
1000
500
0
CT
ME
MA
NH
RI
VT
Imports
Exports
States
Source: Statistics Canada

Connecticut and the FTA

Profile of Trade with Canada

Connecticut ranks second in New England for total trade with Canada, behind Massachusetts. In 1986, Connecticut imported $850 million in goods from Canada and exported $830 million. With only a $20-million deficit on almost $1.7 billion worth of traded goods, Connecticut has the most balanced trade relationship in New England. In finished goods trade with Canada, Connecticut enjoys a significant surplus, as shown in Figure 4.

Table 4 lists the major goods Connecticut imports from Canada. Printed materials, mainly from Quebec and Ontario, is the leading Canadian import to the state. Shipments of books, magazines and other printed goods were valued at $124 million in 1986. Aircraft, plus engines and parts accounted for another $86 million in imports, although the state boasted a strong surplus in these products. As shown in Table 4, other leading finished goods imported from Canada include auto parts, hand tools and equipment, ships and boats, electrical lighting equipment, and a wide range of industrial machinery.

In addition to finished goods, Connecticut imports significant amounts of fabricated materials, led by shipments of newsprint and other paper ($108 million in 1986). Copper and alloys are also important imports, with over $91 million in shipments. Connecticut imports of Canadian lumber, almost exclusively composed of softwood, amounted to $58 million in 1986. Other leading Canadian imports include iron and steel products, crude petroleum, mineral products, precious metals, wood pulp, plastics and rubber. Imports of food or agricultural products consist mainly of whiskey and other beverages, meat, and fish products.

Table 5 illustrates the state's export strength in finished goods. Connecticut's leading exports to Canada were aircraft, plus engines and parts ($141 million in 1986). Electronics, one of the state's top employers is another important export category, with shipments of computers valued at $35 million and telecommunications equipment reaching $21 million in 1986.

Other major finished goods shipped to Canada include measuring and lab equipment, special industry machinery, hand tools, auto parts and printed materials, as shown in Table 5. Fabricated materials play a smaller but important role in Connecticut's trade performance. Major materials shipped north include precious metals ($78 million), plastics, chemicals, non-precious metals, and metal fabricated products such as values and pipe fittings. Wood pulp, paper and textiles also are exported to Canada in significant quantities.

Winners and Losers under the FTA

With traditional manufacturing comprising a major component of Connecticut's economy, the removal of tariffs would boost the state's export growth significantly. Telecommunications equipment, for example, faces a 17.8 percent tariff in Canada, which would be phased out over five years. The FTA would phase out Canada's 13.6 percent duty on plastic materials over five years, while duties on chemicals, ranging from free to 12.5 percent, would be eliminated over five and ten year stages. Industrial machinery makers could also see expanded markets with the phaseout over five years of Canadian tariffs

as high as 9.2 percent. At the same time, many industries that rely on Canadian raw materials could reduce their import costs with the removal of U.S. tariffs on such items as paper, lumber, petroleum, iron, steel, and copper.

Securing access to Canada's vast and inexpensive energy resources, particularly hydroelectric power, would directly benefit utilities and the many manufacturers and other consumers in the state. Moreover, nondiscriminatory treatment for U.S. buyers of Canadian energy would facilitate long-term planning for these consumers, and could even help to attract new business to the state. In addition, insurance and other service industries in the state would stand a better chance of competing in the Canadian market after receiving national or the same treatment as Canadian firms.

Although the FTA would eliminate Canada's high tariffs on textiles and apparel over ten years, Canadian producers would stand to gain more from the agreement than U.S. producers for many reasons, including a higher quota allowance, and the ability to continue using duty drawbacks for textile imports. Moreover, if Canada goes forward with a proposed duty remissions scheme, the U.S. textile industry will face a new and substantial subsidy program in Canada. The FTA's treatment of textiles and apparel is explained in detail in Chapter 5.

Figure 4

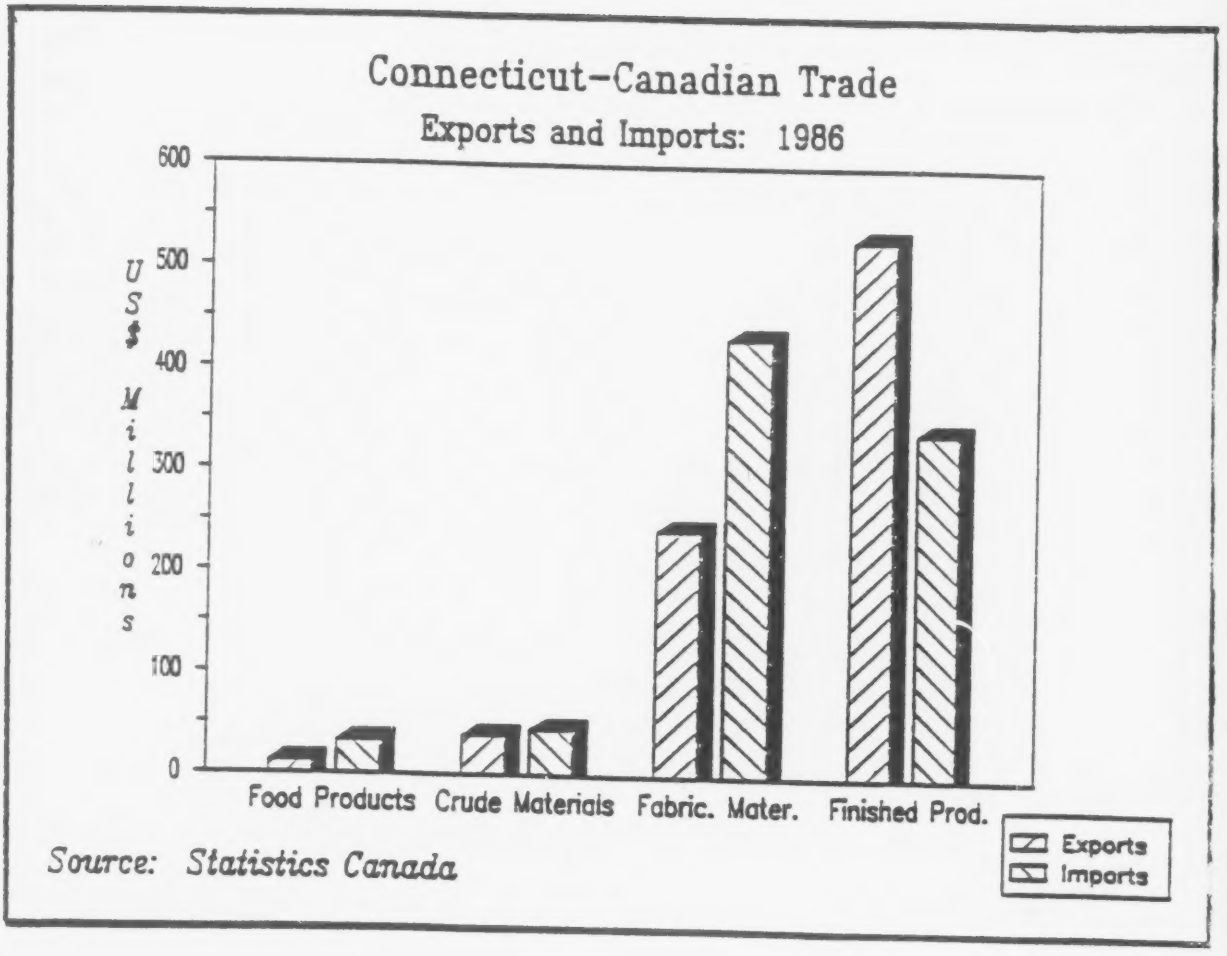

Connecticut-Canadian Trade
Exports and Imports: 1986
600
500
400
300
200
100
0
US $ Millions
Food Products
Crude Materials
Fabric. Mater.
Finished Prod.
Exports
Imports
Source: Statistics Canada

Table 4
Leading Connecticut Imports from Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Whiskey and other Beverages	10,174	31
Meat	7,026	21
Fish and Fish Products	4,802	15
Sugar and Sugar Preparations	3,273	10
Cereals and Cereal Products	3,099	9
Vegetables and Vegetable Products	1,827	6
Feeds and Fodder	1,203	4
Total for seven leading exports	31,404	96
Total for commodity category	32,750	
Crude Materials		
Crude Petroleum	26,934	60
Non-precious Metals, Ore and Scrap	7,052	16
Precious Metals	5,694	13
Seeds, Kernels and other Crude Vegetable Products	3,043	7
Pulpwood Chips and other Crude Wood Products	1,030	2
Asbestos and other Crude Non-metallic Minerals	795	2
Total for six leading exports	44,549	99
Total for commodity category	45,047	
Fabricated Materials		
Newsprint and other Paper	108,073	25
Copper and Alloys	91,286	21
Lumber	57,519	13
Iron, Steel, Castings, Bars and Plate	27,877	6
Abrasives and other Mineral Products	22,164	5
Basic Metal Fabricated Products	18,959	4
Precious Metals and Alloys	16,226	4
Shingles, Plywood and other Wood Fabricated Products	15,730	4
Wood Pulp	15,299	4
Rubber and Plastic Materials	13,170	3
Pertroleum and Coal Products	12,729	3
Aluminum, Zinc, Lead and other Non-ferrous Metals and Alloys	9,237	2
Organic and Inorganic Chemicals and Elements	8,506	2
Nickel and Alloys	4,842	1
Yarn, Thread and other Textile Products	3,060	1
Fertilizer and Fertilizer Material	2,995	1
Chemical Products	2,248	1
Total for 17 leading exports	429,919	100
Total for commodity category	431,985	

(Table 4 continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Printed Materials	123,595	36
Aircraft, Engines and Parts	85,676	25
Telecommunications Equipment	21,660	6
Hand Tools and Equipment	17,218	5
Motor Vehicle Parts	12,418	4
Ships, Boats and Parts	9,897	3
Electrical Lighting and Equipment	8,434	2
Engines and other General Purpose Industrial Machinery	7,594	2
Containers and Closures	6,630	2
Motor Vehicles	6,314	2
Office Machines	5,598	2
Measuring Equipment	3,843	1
Prefabricated Buildings and Structures	3,599	1
Metalworking Machinery	3,037	1
Materials Handling Equipment	2,449	1
Heating and Refrigeration Equipment	2,155	1
Apparel and Footwear	1,726	1
Toys and Games	1,723	1
Plastics Industry Machinery	1,641	< 1
Total for 19 leading exports	325,207	96
Total for commodity category	340,104	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A, January to December, 1986 (Ottawa, Canada, 1987).

Table 5
Leading Connecticut Exports to Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Live Animals	4,811	40
Fish and Fish Products	1,392	11
Tobacco	1,369	11
Coffee	1,323	11
Food and Food Materials	1,102	9
Tea	601	5
Cereals and Cereal Products	380	3
Sugar and Sugar Preparations	376	3
Cocoa and Chocolate	130	1
Vegetables and Vegetable Products	112	1
Total for ten leading exports	11,596	95
Total for commodity category	12,160	
Crude Materials		
Crude Petroleum	19,703	51
Metal Ore, Concentrate and Scrap	12,268	32
Abrasives and other Crude Non-metallic Mineral Products	1,647	4
Textile Fibers	728	2
Crude Wood Materials	396	1
Rubber, Gums and other Crude Vegetable Products	344	1
Fur Skins and other Crude Animal Products	270	1
Total for seven leading exports	35,356	92
Total for commodity category	38,357	

(Table 5, continued)

Commodity	U.S. $1000s	Percent of total category
Fabricated Materials		
Precious Metals	78,243	32
Plastic Materials	27,031	11
Organic and Inorganic Chemicals	25,570	11
Aluminum, Copper, Nickel and other Non-ferrous Alloys	20,113	8
Nuts, Bolts, Screws and other Basic Hardware	19,016	8
Dyes, Pigments, Paints and other Chemicals	17,060	7
Valves, Pipefittings and other Metal Products	10,041	4
Wood Pulp	9,454	4
Iron and Steel Bars, Plates, Pipe and Wire	7,999	3
Textile Fabricated Material	7,422	3
Paper and Paperboard	6,607	3
Abrasives and other Mineral Products	2,162	1
Petroleum and Coal Products	2,087	1
Lumber	1,794	1
Rubber Fabricated Materials	1,082	< 1
Total for 15 leading exports	235,679	97
Total for commodity category	242,622	
Finished Products		
Aircraft, Engines and Parts	141,283	27
Bearings, Engines, Pumps and other General Industrial Machinery	37,434	7
Computers	34,495	7
Measuring and Lab Equipment	34,146	6
Special Industry Machinery (Including Printing, Textiles and Plastics)	33,977	6
Hand Tools and Equipment	29,143	6
Motor Vehicle Parts and Engines	25,911	5
Printed Materials	25,454	5
Telecommunications Parts and Equipment	20,798	4
Electrical Lighting and Equipment	17,341	3
Office Machines	14,788	3
Metalworking Machinery	13,111	2
Medical Supplies	11,681	2
Film and Other Photographic Goods	10,741	2
Watches, Clocks, Jewelry and Silverware	10,665	2
Containers and Closures	8,166	2
Airconditioning and Refrigeration Equipment	4,331	1
Stationer's and Office Supplies	3,194	1
Railway Rolling Stock	2,454	< 1
Ships, Boats and Engines	1,392	< 1
Total for 20 leading exports	480,506	91
Total for commodity category	528,602	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A, January to December, 1986 (Ottawa, Canada, 1987).

Maine and the FTA

Profile of Trade with Canada

Maine ranks third in New England for total trade with Canada, behind Massachusetts and Connecticut. In 1986, Maine imported $766 million and exported $257 million to Canada, translating into a trade deficit of $509 million. Based on these figures, Canadian shipments accounted for 75 percent of the state's bilateral trade.

As shown in Figure 5, Maine's imports from Canada are dominated by fabricated materials. Imports of wood pulp alone accounted for over $226 million in 1986, or 32 percent of total Canadian imports to the state. Wood pulp is used to make paper and similar products, some of which are sold back to Canada. Maine also relies heavily on Canada to meet its energy needs, particularly electricity. In 1986, Maine imported $107 in Canadian electricity, more than the other New England states. Other major energy imports include petroleum products ($88 million) and coal products ($48 million).

Imports of seafood products exceeded exports more than seven times in 1986, as shown in Tables 6 and 7. Imports primarily consist of processed fish, while exports to Canada are mostly unprocessed fish and marine animals. Auto products, including finished vehicles and parts, lead Maine imports of finished goods. The state also imported a variety of industrial machinery, equipment and tools.

Maine's shipments to Canada are about evenly divided among crude materials, fabricated materials and end products. Although the volume of total exports is relatively small, Maine boasts the greatest export diversity among the New England states. As shown in Table 7, the state's leading export to Canada is crude wood materials, with shipments totalling $73 million in 1986. In contrast, lumber exports from the state are considerably smaller, ($8.2 million), much of which is softwood. Maine also exports a large volume of paper and paperboard, with shipments valued at $45 million in 1986.

Maine ships a wide variety of end products in moderate amounts. Electronics goods lead this category, including telecommunications equipment ($8.3 million), and electronic tubes and semiconductors ($4.5 million).

Winners and Losers under the FTA

Despite some outstanding trade disputes that the FTA would not resolve, the FTA could have a beneficial impact on Maine's economy. One of the greatest gains may be a stable source of inexpensive Canadian energy, in particular hydropower, which would reduce costs and facilitate long-term planning for energy-intensive industries in the state. A dependable energy supply, essential to any major manufacturer, could attract new industry and create employment opportunities in Maine.

Because of Maine's close proximity to Canada, removing trade barriers, including tariffs, border restrictions, and other non-tariff barriers, could enable small to medium-size companies to sell their products or services in the Canadian market. Manufacturers of finished products in the state should see

increased access to the Canadian market with the removal of tariffs. Canadian duties on telecommunications equipment, for example, are some of the highest tariffs in the industrialized world (17.8 percent). Although these tariffs would be phased out over five years, the Canadian industry would continue to enjoy import protection through a preferential supplier arrangement between Bell Canada and Northern Telecom. In addition, Canada uses equipment standards to effectively discriminate against U.S. suppliers. These barriers, which the FTA does not resolve, are described in more detail in Chapter 5.

The biggest trade problems for the state concern Canadian subsidies and other unfair practices affecting natural resources and agriculture goods. One of the most long-standing trade irritants for Maine is what state officials, along with the Maine Potato Council, assert is Canada's continued dumping (selling at less than fair market value) and subsidization of round white potatoes in an attempt to capture the Northeast market. This issue, described in more detail in Chapter 6, is not addressed by the FTA.

The FTA has created a new, and potentially significant problem for Maine and other states with commercial fish industries. The FTA contains a provision that would allow East Coast provinces--New Brunswick, Newfoundland, Nova Scotia, Prince Edward Island, and Quebec--to prohibit the export of unprocessed fish. This provision is identical to West Coast provincial laws, against which the United States filed a complaint in the GATT and recently won a favorable ruling. The western provinces responded to the ruling that they will require that fish caught in Canadian waters be landed on Canadian soil for resource management purposes such as weighing and counting. The FTA would allow the eastern provinces to duplicate restrictions that the United States has already found unacceptable in the western provinces, which would be detrimental to sardine and other fish processors in Maine.

On the brighter side, the industrial machinery industry, which is enjoying a rebound from a slump during the past few years, could be one of the biggest winners in the state. The FTA would phase out tariffs over five years on machinery, as shown in Table 1. Since Canadian tariffs run roughly twice as high as U.S. tariffs on machinery, removing duties could increase sales opportunities for Maine machinery producers--including pulp and paper, metalworking, construction, agriculture, special and general industry machinery --which currently export small quantities to Canada.

Figure 5

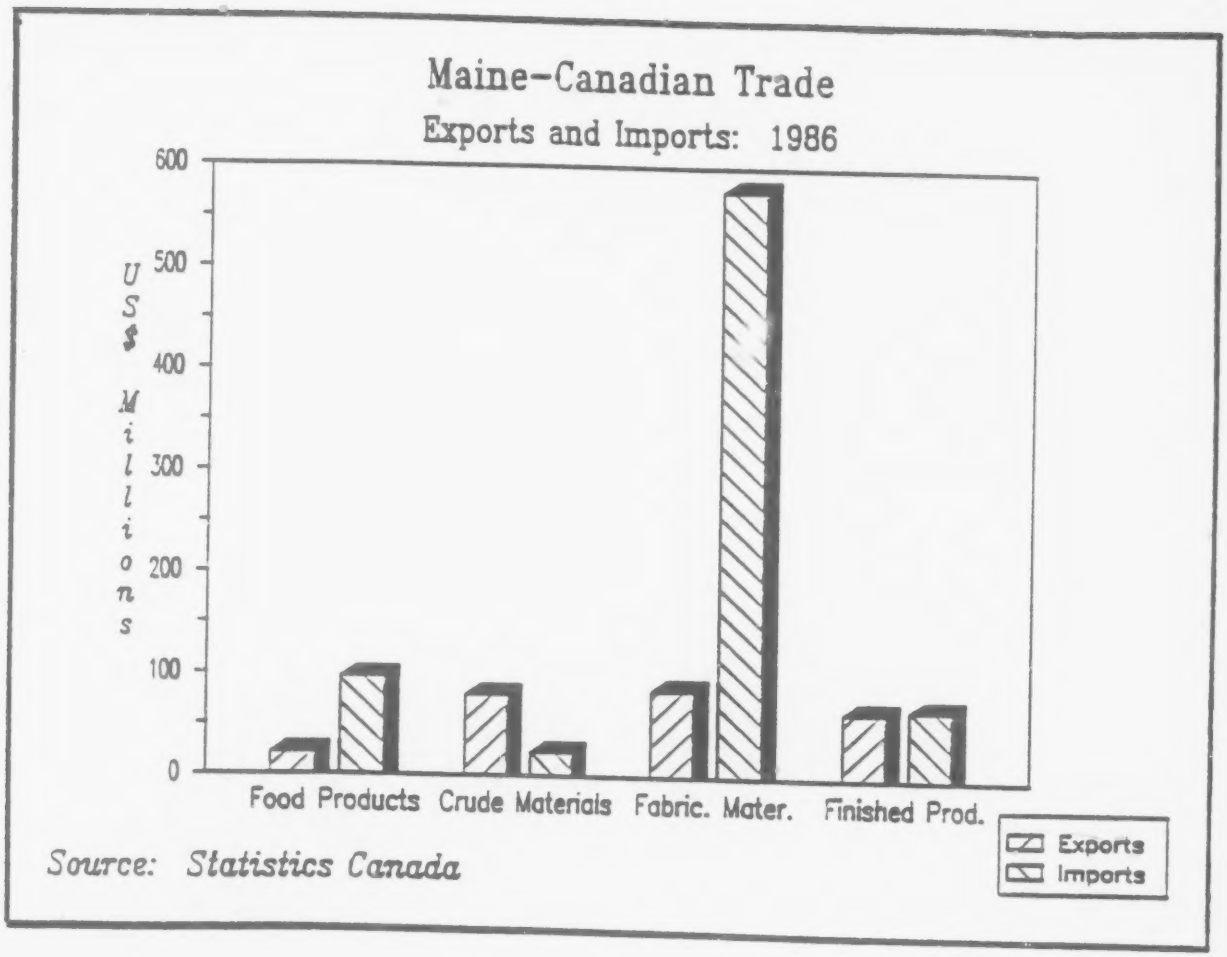

Maine-Canadian Trade
Exports and Imports: 1986
600
500
400
300
200
100
0
US$ Millions
Food Products
Crude Materials
Fabric. Mater.
Finished Prod.
Exports
Imports
Source: Statistics Canada

Table 6
Leading Maine Imports from Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Fish and Fish Products	71,418	74
Vegetables and Vegetable Products	6,782	7
Meat	6,130	6
Fruits and Fruit Preparations	3,780	4
Feed and Fodder	2,465	3
Whiskey and Other Beverages	1,924	2
Total for six leading exports	92,498	96
Total for commodity category	96,646	
Crude Materials		
Pulpwood and Pulpwood Chips	8,979	39
Textile and Related Fibers	3,553	15
Crude Wood Products	2,417	10
Seeds, Nuts, Kernels and other Crude Vegetable Products	2,400	10
Rawhides, Skins and other Crude Animal Products	1,090	5
Sulphur and other Crude Non-metallic Minerals	1,980	9
Total for six leading exports	20,419	88
Total for commodity category	23,131	
Fabricated Materials		
Wood Pulp	226,313	39
Electricity	107,644	19
Petroleum and Coal Products	87,527	15
Lumber	47,895	8
Newsprint and other Paper	25,154	4
Organic and Inorganic Chemicals	20,819	4
Metals and Basic Metal Products	18,208	3
Abrasives and other Basic Non-metallic Mineral Products	16,972	3
Synthetic Rubber and Plastic Materials	7,524	1
Fertilizers	7,022	1
Shingles, Plywood and other Wood Fabricated Products	6,778	1
Total for 11 leading exports	571,856	99
Total for commodity category	577,257	

(Table 6 continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Motor Vehicles	8,415	12
Special Industry Machinery	7,916	11
Pulp and Papers Industry Machinery	5,740	8
Materials Handling Equipment	5,407	8
Hand Tools and Equipment	5,306	8
Prefabricated Buildings and Structures	4,880	7
Motor Vehicle Parts	4,369	6
Engines, Turbines and other General Purpose Industrial Machinery	4,220	6
Ships, Boats and Parts	4,019	6
Containers and Closures	3,911	6
Agricultural Machinery	2,252	3
Telecommunications Equipment and Parts	2,177	3
Footwear	1,588	2
Heating and Refrigeration	1,143	2
Electric Lighting and Equipment	801	1
Total for leading 15 exports	62,144	90
Total for commodity category	69,023	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A, January to December, 1986 (Ottawa, Canada, 1987).

Table 7
Leading Maine Exports to Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Fish and Fish Products	10,186	47
Fruit and Fruit Products	3,368	16
Meat and Meat Products	2,083	10
Live Animals	1,618	7
Feed and Fodder	1,478	7
Vegetables and Vegetable Products	796	4
Total for six leading exports	19,529	90
Total for commodity category	21,665	
Crude Materials		
Crude Wood Materials	73,025	92
Fur Skins and other Crude Animal Products	1,915	2
Metal Ore, Iron and Scrap	762	1
Abrasives and other Crude Non-metallic Minerals	707	1
Wool and Man-made Fibers	426	1
Total for five leading exports	76,835	97
Total for commodity category	79,483	
Fabricated Materials		
Paper and Paperboard	45,169	53
Lumber	8,219	10
Wood Pulp	8,113	10
Plastic Materials	4,499	5
Fuel Oil and Other Petroleum Products	3,702	4
Textile Fabricated Materials	3,600	4
Metals and Basic Metal Products	3,543	4
Plywood, Veneer and Other Wood Fabricated Materials	2,857	3
Leather and Leather Materials	1,385	2
Total for nine leading exports	81,087	95
Total for commodity category	85,294	

(Table 7 continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Telecommunications Equipment	8,284	13
Semiconductors and Tubes	4,512	7
Motor Vehicle Parts	4,099	6
Electrical Lighting and Equipment	4,082	6
Special Industry Machinery	3,656	6
Sanitation and Safety Equipment	2,968	5
Computers	2,967	5
Pulp and Paper Industries Machinery	2,915	4
Containers and Closures	2,449	4
Footwear	2,337	4
Service Industry Equipment	2,318	4
Engines, Bearings, Pumps and other General Industrial Machinery	2,236	3
Metalworking Machinery	1,594	2
Construction and Maintenance Machinery	1,436	2
Stationer's and Office Supplies	1,252	2
Tractors and Agricultural Machinery	1,063	2
Medical Supplies	1,020	2
Motor Vehicles	456	1
Total for 18 leading exports	49,643	76
Total for commodity category	65,068	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A, January to December, 1986 (Ottawa, Canada, 1987).

Massachusetts and the FTA

Profile of Trade with Canada

Massachusetts leads New England in total trade with Canada, with shipments valued at $3.8 billion in 1986. Massachusetts imported from Canada over $2.3 billion while exporting close to $1.4 billion, translating into a $900-million trade deficit for the state. Canadian exports comprise 62 percent of the state's total trade with Canada. Figure 6 shows the structure of Massachusetts trade with Canada, with a concentration in imports of food and fabricated materials and exports of finished goods.

By a wide margin, Massachusetts' leading Canadian import is fish--fresh and frozen whole fish or fillets, processed fish, and fish products. In 1986, the state imported almost $621 million in these products, as shown in Table 8. Other food items Canada ships to Massachusetts include meat, vegetables, plus whiskey and other beverages. The states also imports large quantities of newsprint and other paper goods, $211 million in 1986, and Canadian lumber, primarily softwood ($196 million). And like Maine, Massachusetts depends heavily on Canada for energy resources. In 1986, Massachusetts imported $191 million worth of petroleum and coal and $91 million in electricity. Other major fabricated materials imported include mineral products, basic metal products, precious metals, plywood, wood pulp, and plastics.

Massachusetts also imports a wide variety of finished products from Canada, leading with office machines ($168 million in 1986), auto parts ($127 million), aircraft engines and parts, and telecommunications equipment.

The state's export profile with Canada reflects New England's broad diversity in manufactured goods. As shown in Figure 6, Massachusetts primarily exports finished products to Canada, dominated by computer shipments, valued at $480 million in 1986, or 35 percent of total goods shipped north. The state also exports to Canada significant volumes of telecommunications equipment and semiconductors, shown in Table 9. Other exported finished goods include industrial machinery, electrical lighting and equipment, printed materials, photographic goods, medical equipment and supplies, motor vehicles and parts, and apparel.

Textiles are an important state export to Canada, with shipments valued at $46 million in 1986. Other leading fabricated and crude products include metal products such as valves, as well as plastics, chemical products, and paper, plus some food products including fish, vegetables, and fruit.

Winners and Losers under the FTA

Given the nature of the state's diversity in manufactured goods, the FTA likely would boost existing export levels of fabricated and finished products as well as create new opportunities for sales of goods that have never been marketed in Canada because of high Canadian tariffs. For instance, Canada currently imposes a 17.8 percent tariff on imports of telecommunications equipment, which would be phased out over five years. Although removing this steep tariff would increase access in Canada, U.S. producers would face discriminatory barriers, the most contentious of which is a preferential supplier relationship between Bell Canada and Northern Telecom.

The Canadian computer market is considered relatively open, protected by a relatively low tariff of 3.9 percent tariff, which would be removed immediately. Canada would retain its new rationalization program, which imposes marketing requirements on foreign computer firms trying to sell to the Canadian government. In addition, the FTA does not address copyright protection in Canada for computer software, since intellectual property rights issues were not included in the agreement.

In addition to benefits derived from removing tariffs, manufacturers would gain assured long-term, non-discriminatory access to Canada's inexpensive energy resources, particularly hydroelectric power. This is a significant provision in the agreement for existing energy-intensive industries located in Massachusetts and could help the state attract new manufacturing plants.

The duty-free status of unprocessed fish would continue, while the small tariffs on processed fish would be eliminated over five years. However, the FTA has created a new, and potentially significant problem for Massachusetts and other states with commercial fish industries. The FTA contains a provision that would allow East Coast provinces--New Brunswick, Newfoundland, Nova Scotia, Prince Edward Island, and Quebec--to prohibit the export of unprocessed fish, jeopardizing the livelihood of numerous fish processors in Massachusetts. This issue is described in more detail in Chapter 6.

The U.S. paper industry is very price competitive in the world paper market, undercut only by Canada. The FTA would preserve the duty-free status of newsprint but would not address some of the other Canadian non-tariff barriers on paper, including government subsidies, preferential tax treatment, and discrimatory postal rates on printed materials produced outside of Canada. These kinds of assistance contribute to the Canadian paper industry's competitive edge.

Massachusetts' industrial machinery manufacturers are potentially one of the biggest winners from the FTA. With the phaseout of tariffs over five years, the machinery industry could experience major sales growth in Canada, which could add momentum to the industry's current economic recovery. Textile and apparel producers, on the other hand, because of a difference in quota allowance and other provisions in the FTA favoring Canadian producers, likely would not see increased sales in Canada under the agreement. Furthermore, these producers in Massachusetts as well as throughout the country will be further disadvantaged if Canada implements a program to provide duty rebates to textiles imported from third countries. This program is explained in detail in Chapter 5.

Figure 6

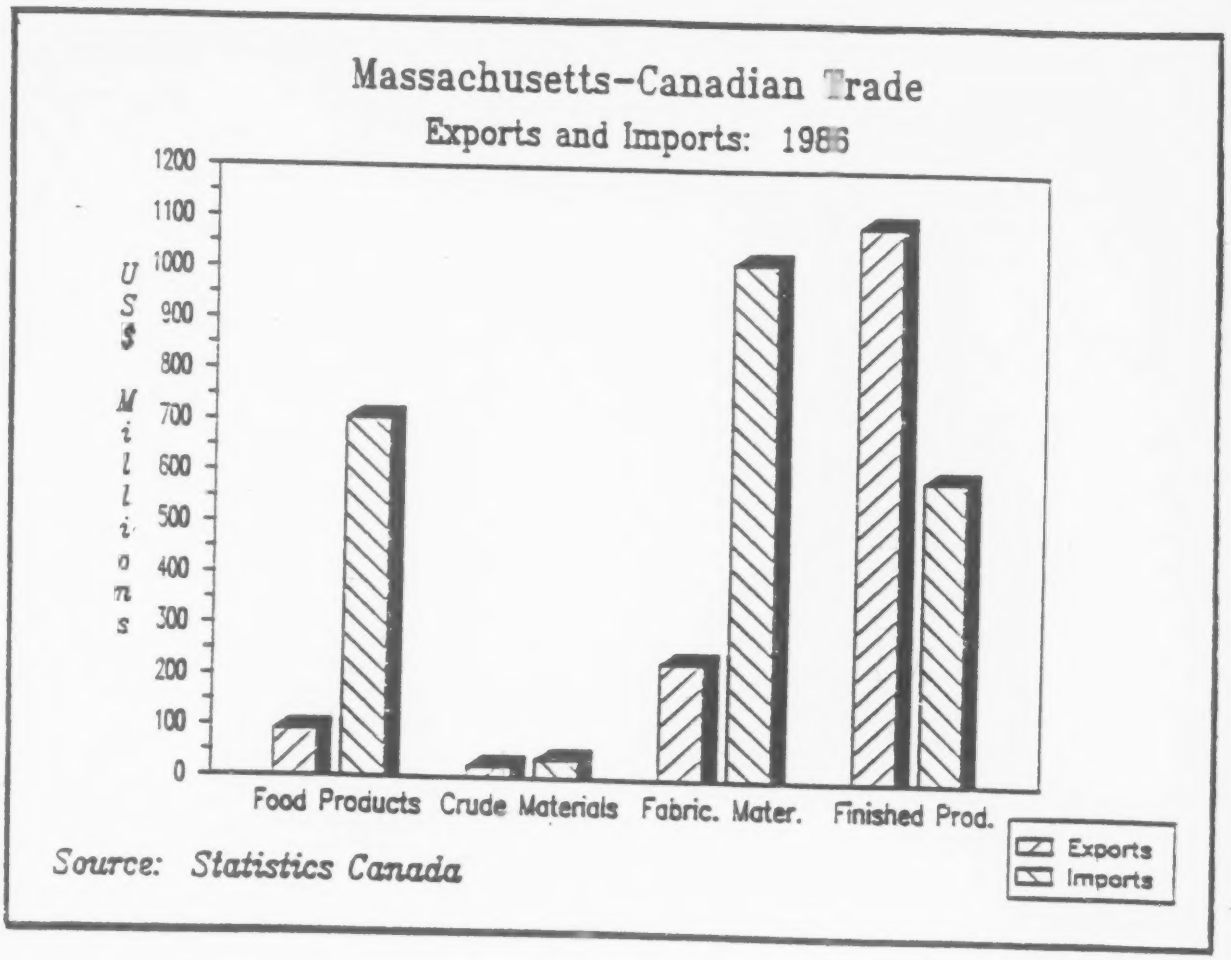

Massachusetts-Canadian Trade
Exports and Imports: 1986
US $ Millions
1200
1100
1000
900
800
700
600
500
400
300
200
100
0
Food Products
Crude Materials
Fabric. Mater.
Finished Prod.
Exports
Imports
Source: Statistics Canada

Table 8
Leading Massachusetts Imports from Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Fish and Fish Products	620,776	88
Meat	28,509	4
Whiskey and other Beverages	13,942	2
Vegetables and Vegetable Products	12,515	2
Sugar and Sugar Preparations	10,303	1
Cereals and Cereal Products	9,046	1
Feed and Fodder	1,697	< 1
Total for seven leading exports	696,787	99
Total for commodity category	705,006	
Crude Materials		
Precious Metals	15,086	40
Seeds, Oil, Kernels and other Crude Vegetable Products	9,854	26
Pulpwood and Crude Wood Products	4,038	11
Asbestos and other Crude Non-metallic Minerals	3,207	9
Rawhides, Skin and other Crude Animal Products	1,498	4
Textile and Related Fibers	1,205	3
Non-precious Metals, Ore and Scrap	857	2
Total for seven leading exports	35,745	96
Total for commodity category	37,263	
Fabricated Materials		
Newsprint and other Paper	211,208	21
Lumber	195,580	19
Pertoleum and Coal Products	191,055	19
Electricity	91,466	9
Abrasives and other Non-metallic Basic Mineral Products	76,544	8
Non-precious Metals and Basic Metal Products	76,514	8
Precious Metals	43,653	4
Shingles, Plywood and other Wood Fabricated Products	42,343	4
Wood Pulp	35,306	3
Rubber and Plastic Materials	21,549	2
Organic and Inorganic Chemicals	14,718	1
Textile Fabricated Materials	4,234	< 1
Leather and Leather Products	2,688	< 1
Total for 13 leading exports	1,006,859	99
Total for commodity category	1,017,355	

(Table 8 continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Office Machines	167,566	28
Motor Vehicle Parts	126,537	21
Aircraft, Engines and Parts	43,039	7
Telecommunications Equipment	39,617	7
Hand Tools and Equipment	36,557	6
Special Industry Machinery	26,051	4
Motor Vehicles	24,437	4
Apparel and Footwear	13,944	2
Containers and Closures	13,304	2
Printed Materials	12,892	2
Prefabricated Buildings and Structures	11,996	2
Engines, Generators and other General Purpose Industrial Machinery	9,513	2
Measuring Equipment	7,888	1
Electrical Lighting and Equipment	7,652	1
Photographic Goods	7,597	1
Medical Supplies	6,149	1
Heating and Refrigeration	5,906	1
Total for leading 17 exports	560,645	94
Total for commodity category	594,845	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A, January to December, 1986 (Ottawa, Canada, 1987).

Table 9
Leading Massachusetts Exports to Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Fish and Fish Products	34,317	37
Vegetables and Vegetable Products	18,286	20
Fruit and Fruit Products	15,122	17
Meat	7,451	8
Food and Food Material	6,563	7
Dairy, Eggs and Honey	2,735	3
Coffee	1,793	2
Cereals and Cereal Products	1,536	2
Live Animals	1,271	1
Feed and Fodder	1,234	1
Sugar and Sugar Preparations	852	1
Total for 11 leading exports	91,160	99
Total for commodity category	91,646	
Crude Materials		
Metal Ore and Scrap	6,893	31
Fur Skins and other Crude Animal Products	3,025	14
Wool and Fine Animal Hair	2,053	9
Crude Wood Materials	1,595	7
Textile Fibers (except Wool)	1,279	6
Rubber, Gums and other Crude Vegetable Products	1,150	5
Abrasives and other Crude Non-metallic Minerals	877	4
Total for seven leading exports	16,872	76
Total for commodity category	22,263	

(Table 9 continued)

Commodity	U.S. $1000s	Percent of total category
Fabricated Materials		
Textile Fabricated Materials	45,762	20
Plastic Materials	40,025	17
Valves, Fittings and other Basic Metal Products	31,036	13
Paper and Paperboard	27,904	12
Dyes, Pigments, Paint and other Chemical Products	19,121	8
Metal Bars, Sheets, Pipe and Wire	18,993	8
Organic and Inorganic Chemicals	14,660	6
Abrasives and other Basic Non-metallic Mineral Products	9,125	4
Rubber Fabricated Materials	4,823	2
Lumber	4,377	2
Leather and Leather Fabricated Materials	3,289	1
Total for 11 leading exports	219,115	95
Total for commodity category	230,406	
Finished Products		
Computers	479,740	44
Aircraft, Engines and Parts	99,896	9
Electrical and other Measuring and Laboratory Equipment	60,197	6
Telecommunications Equipment	52,582	5
Semiconductors and Electronic Tubes	43,705	4
Special Industry Machinery	33,459	3
Electrical Lighting and Equipment	27,033	2
Engines, Generators, Bearings and other General Industrial Machinery	26,296	2
Printing Industry Machinery	25,910	2
Printed Materials	25,756	2
Film and Photographic Goods	24,388	2
Medical Equipment	19,326	2
Hand Tools and Equipment	18,621	2
Medical Supplies	16,030	1
Motor Vehicle Parts	15,204	1
Metalworking Machinery	14,678	1
Games, Toys and Sporting Goods	13,405	1
Pulp and Papers Industry Machinery	9,384	1
Household Goods	8,781	1
Apparel and Footwear	8,149	1
Total for 20 leading exports	1,022,540	94
Total for commodity category	1,092,751	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A, January to December, 1986 (Ottawa, Canada, 1987).

New Hampshire and the FTA

Trade Profile with Canada

Although New Hampshire recorded the smallest trade volume with Canada among the six New England states in 1986, it represents a significant amount for the state's size--almost reaching $500 million in two-way trade. New Hampshire imported $311 million while exporting $186 million to Canada, for a trade deficit of $125 million in 1986. However, New Hampshire boasts a surplus in trade of finished goods.

New Hampshire, like other New England states, depends on Canada more for natural resources and fabricated products than for finished goods, as shown in Figure 7. Fabricated products, including lumber, metals and metal products, wood pulp, and newsprint, constitute well over half of the goods that New Hampshire imports from Canada (see Table 10).

Fish and fish products are a leading Canadian export to New Hampshire, with shipments valued at $51 million in 1986. Although finished goods comprise a smaller portion of imports from Canada, they still accounted for $73 million in 1986. Major finished goods to the state include motor vehicles and parts, prefabricated buildings, telecommunications equipment, and a variety of industrial machinery and equipment.

On the export side, New Hampshire ships a large amount of finished products north, concentrated in computers, auto parts and a range of machinery. The state ships smaller amounts of lumber, chemicals, basic metal products, and paper and paper products, as shown in Table 11.

Winners and Losers under the FTA

Since finished goods face the highest tariffs in Canada, the removal of tariffs would boost sales of New Hampshire's leading exports, including machinery and computers. In addition to removing tariffs, the FTA could fuel the rebound the industrial machinery sector is experiencing in state by ensuring long-term access to inexpensive Canadian energy resources. In addition, other industries in the state that depend on Canada for supplies of raw materials would benefit from their reduced costs once U.S. tariffs were removed.

The Auto Pact would continue to govern most bilateral automotive trade. The proposed rule of origin, requiring that 50 percent direct cost of processing of a product took place in North America before it received duty benefits, would likely ensure that more automotive production occurred in North America rather than in a third country. However, Canadian production safeguards and duty remissions would remain intact, providing few, if any, new export opportunities for New Hampshire-based auto parts producers. The automotive provisions are explained in detail in Chapter 4 of this report.

Although the phaseout of Canada's high tariffs on textiles and apparel would certainly eliminate a major barrier to the state's industry, the FTA places U.S. producers at a disadvantage vis-a-vis Canadian textile and apparel producers for a number of reasons, including a higher quota for Canadian shipments of apparel made from third-country textiles. Moreover, Canada is in

the process of establishing a duty remissions program that will provide Canadian apparel makers a duty rebate on textiles imported from third countries. This contemplated action, described in detail in Chapter 5, will have a direct, adverse effect on U.S. producers of textiles and apparel.

Figure 7

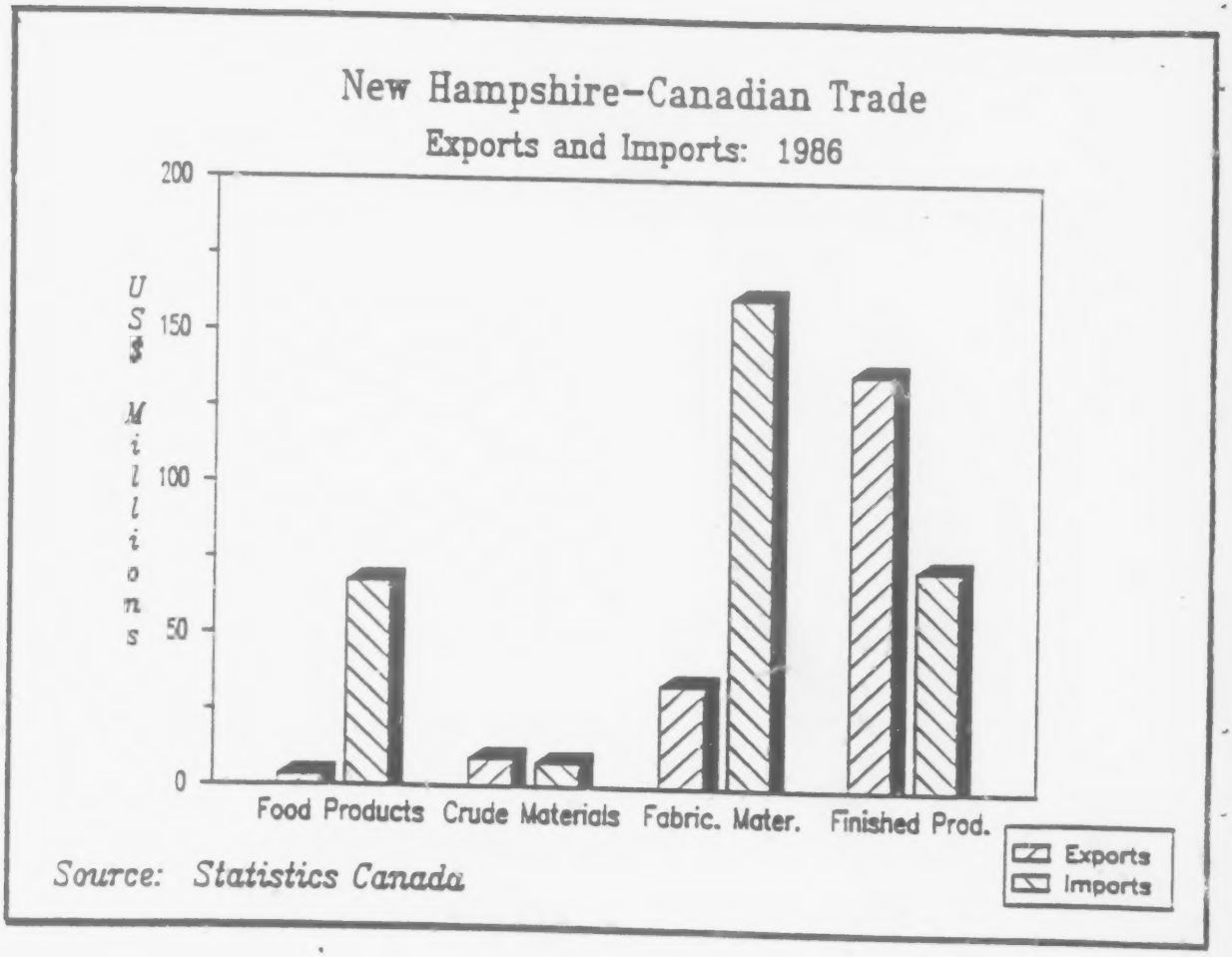

New Hampshire-Canadian Trade
Exports and Imports: 1986
US $ Millions
200
150
100
50
0
Food Products
Crude Materials
Fabric. Mater.
Finished Prod.
Exports
Imports
Source: Statistics Canada

Table 10
Leading New Hampshire Imports from Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Fish and Fish Products	50,542	75
Meat	5,093	8
Sugar and Sugar Preparations	4,649	7
Whiskey and other Beverages	4,223	6
Feed and Fodder	1,118	2
Barley, other Cereals and Cereal Products	911	1
Total for six leading exports	66,535	99
Total for commodity Category	67,427	
Crude Materials		
Textile Fibers	4,591	58
Asbestos and Crude Non-metallic Minerals	1,251	16
Crude Wood Products	690	9
Oil Seeds, Nuts, Kernels and other Crude Vegetable Products	660	8
Metallic Ores and Scrap	42	1
Total for five leading exports	7,235	91
Total for commodity category	7,949	
Fabricated Materials		
Lumber	56,092	35
Metals and Basic Metal Products	50,244	31
Wood Pulp	20,082	12
Newsprint	11,941	7
Shingles, Plywood and other Wood Products	7,200	4
Petroleum and Coal Products	6,638	4
Paperboard and other Paper	6,189	4
Total for seven leading exports	158,385	98
Total for commodity category	161,478	

(Table 10 continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Prefabricated Buildings and Structures	9,391	13
Telecommunications Equipment and Parts	9,204	13
Drilling, Excavating and Mining Machinery	7,244	10
Motor Vehicle Parts	6,259	9
Hand Tools and Equipment	5,070	7
Motor Vehicles	4,937	7
Specialized Industrial Machinery	4,741	7
Engines, Generators and other General Industrial Machinery	4,423	6
Office Machines	4,001	6
Agricultural Machinery	1,867	3
Heating and Refrigeration	1,257	2
Measuring and Lab Equipment	1,226	2
Containers and Closures	1,189	2
Apparel and Footwear	889	1
Printed Material	809	1
Total for 16 leading exports	62,507	86
Total for commodity category	72,738	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A, January to December, 1986 (Ottawa, Canada, 1987).

Table 11
Leading New Hampshire Exports to Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Live Animals	1,730	52
Fish and Fish Products	1,266	38
Food and Food Materials	162	5
Meat	33	1
Fruit	30	1
Total for leading five exports	3,221	98
Total for commodity category	3,296	
Crude Materials		
Crude Wood Materials	7,625	83
Metallic Ore, Iron and Scrap	399	4
Fur Skins and other Crude Animal Products	183	2
Rubber, Gums and other Crude Vegetable Products	176	2
Wool and Fine Animal Hair	125	1
Total for leading five exports	8,509	93
Total for commodity category	9,194	
Fabricated Materials		
Lumber	7,890	23
Organic Chemicals	6,651	20
Hardware and other Basic Metal Products	3,200	9
Paper and Paperboard	3,193	9
Plastic Materials	1,859	5
Dyes, Paints and other Chemical Products	1,690	5
Fabrics of Natural and Man-made Fibers	1,599	5
Metals, Plate and Basic Forms	746	2
Abrasives and other Non-metallic Basic Mineral Products	678	2
Petroleum and Coal Products	509	2
Total for ten leading exports	28,015	83
Total for commodity category	33,834	

(Table 11 continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Computers	28,207	21
Motor Vehicle Parts	19,768	14
Printing Machinery	15,287	11
Other Industrial Machinery	14,619	11
Electrical Property and Measuring Equipment	12,599	9
Electronic Parts and Equipment	9,384	7
Aircraft, Engines and Parts	6,215	5
Engines, Bearings, Turbines and other Basic Industrial Machinery	5,080	4
Containers and Closures	2,673	2
Printed Materials	2,648	2
Apparel and Footwear	2,583	2
Tools and Equipment	1,813	1
Film and Photographic Goods	1,709	1
Total for 13 leading exports	122,584	89
Total for commodity category	137,036	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A, January to December, 1986 (Otawa, Canada, 1987).

Rhode Island and the FTA

Given its size, Rhode Island is a substantial trading partner with Canada, with $593 million in bilateral trade in 1986. Of this amount, $465 million, or 78 percent, consisted of imports from Canada to Rhode Island, while $128 consisted of exports to Canada, resulting in a $377 million trade deficit for that year. As shown in Figure 8, most of this deficit comes from Canada's shipments of fabricated materials.

Trade Profile with Canada

Precious metals top the list of imports, accounting for $302 million or 65 percent of Rhode Island's imports from Canada in 1986 (see Table 12). Most of these precious metals are used to make jewelry or silverware. Other leading fabricated products that Rhode Island imports include newsprint and other papers, with $41 million shipped duty-free in 1986, and metal fabricated products, with $20 million in 1986. Large volumes of lumber, especially softwood, comes from Canada, with shipments valued at $20 million in 1986. Other fabricated products shipped include oils and waxes, plywood, and chemical products. Like other New England states, Rhode Island depends on Canada for fish and fish products, importing $12 million in 1986, as well as $5 million in meat.

On the export side, Rhode Island's strength lies in finished products, as shown in Table 13. In particular, the state ships significant amounts of computers ($14 million), jewelry, watches and silverware ($10 million), games and toys ($4 million) as well as a variety of machinery. Rhode Island ships a small amount of fabricated and crude products to Canada, most of which are less capital and labor intensive than finished goods and generally represent smaller profit potentials. Metals and metal fabricated products, including valves and other such hardware, top this list with $15 million worth of exports to Canada in 1986. Textiles, including fabric and yarn, accounted for $6 million.

Winners and Losers under the FTA

Manufacturers of finished goods in the state would gain from the phaseout of Canada's comparatively high tariffs on machinery, jewelry, games and toys, and other products. Although the Canadian computer industry is relatively open, the immediate removal of Canada's 3.9 percent tariff on computers likely would create more sales opportunities north of the border. Some restrictions on computer sales would remain, however, including a rationalization program on sales of imported computers to the Canadian government, explained in more detail in Chapter 5.

The jewelry industry, an integral part of the state's economy, would benefit from the agreement in at least two ways. First, the cost of imported precious metals from Canada such as silver and gold, would be lowered with the removal of U.S. tariffs. Second, the removal of Canadian tariffs on finished jewelry could increase producers' market share in Canada. Other industries also would enjoy relief from high Canadian tariffs, including paper and non-precious metals.

Figure 8

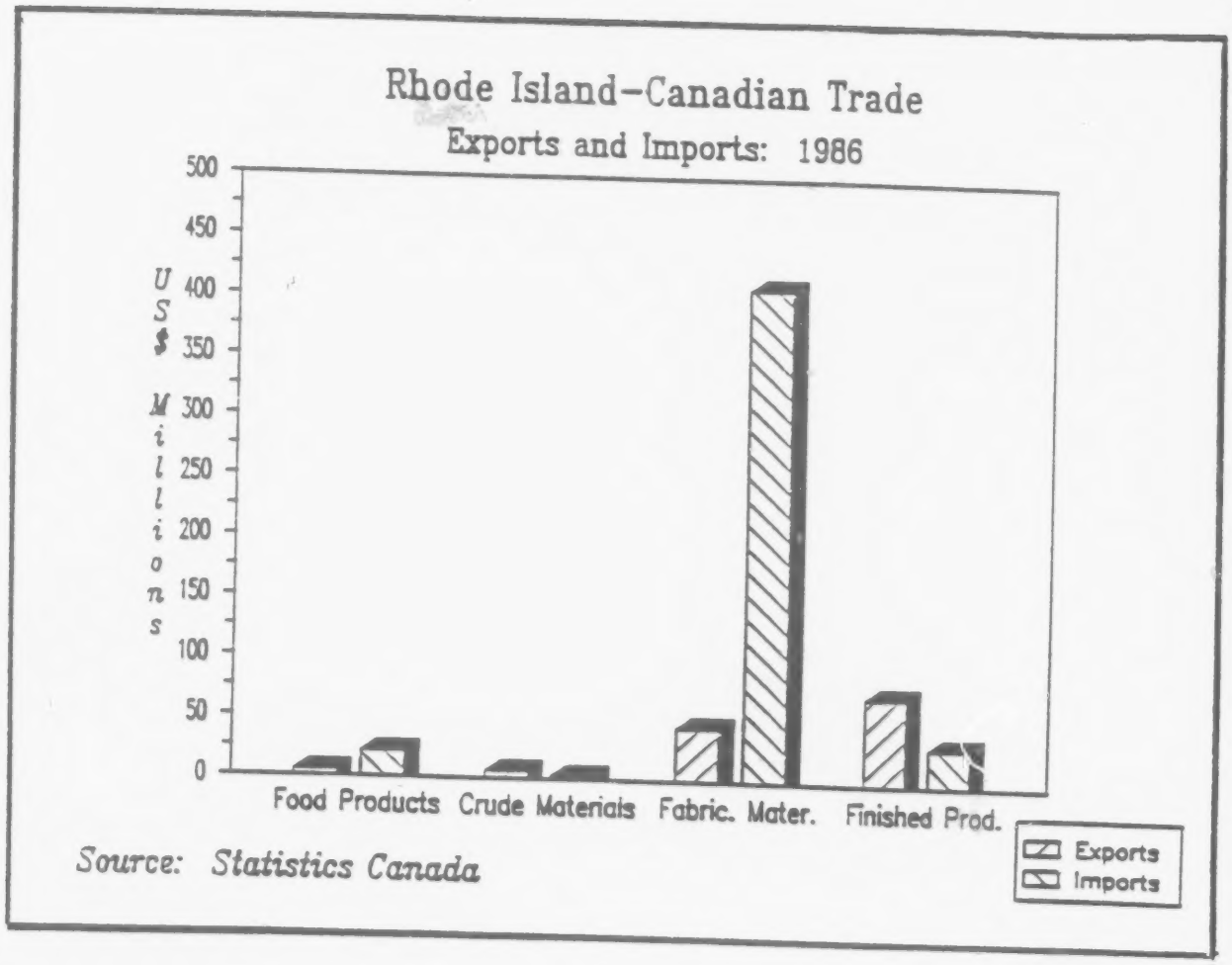

Rhode Island–Canadian Trade
Exports and Imports: 1986
US$ Millions
500
450
400
350
300
250
200
150
100
50
0
Food Products
Crude Materials
Fabric. Mater.
Finished Prod.
Exports
Imports
Source: Statistics Canada

Table 12
Leading Rhode Island Imports from Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Fish and Fish Products	11,678	54
Meat	4,996	23
Cereals and Cereal Products	1,701	8
Whiskey and other Beverages	1,546	7
Vegetables and Vegetable Products	923	4
Total for five leading exports	20,845	97
Total for commodity category	21,511	
Crude Materials		
Asbestos and other Crude Non-metallic Minerals	1,583	54
Crude Vegetable Products	476	16
Seeds for Sowing	263	9
Crude Wood Products	237	8
Metal Ore and Scrap	192	7
Total for five leading exports	2,751	
Total for commodity category	2,926	
Fabricated Materials		
Precious Metals and Alloys	301,750	74
Newsprint and other Paper	41,132	10
Metals (Non-precious) and Metal Products	19,605	5
Lumber	19,546	5
Oils, Fats, Waxes and Derivatives	6,467	2
Shingles, Plywood and other Wood Fabricated Materials	4,859	1
Organic and Inorganic Chemicals	2,540	1
Rubber and Plastic Materials	1,589	< 1
Petroleum and Coal Products	1,395	< 1
Textile Fabricated Materials	1,008	< 1
Total for ten leading exports	399,893	98
Total for commodity category	409,164	

(Table 12 continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Ships, Boats and Parts	3,938	13
Motor Vehicle Parts	2,886	9
Telecommunications Equipment	2,858	9
Hand Tools and Equipment	2,604	8
Medical and Laboratory Equipment	2,098	7
Office Machines	1,675	5
Electric Lighting and Equipment	1,438	5
Apparel and Accessories	1,400	4
Drilling, Excavating and Mining Machinery	1,115	4
Printed Material	1,001	3
Motor Vehicles	978	3
Containers and Closures	879	3
Prefabricated Buildings and Structures	823	3
Plastics Industry Machinery	496	2
Engines, Generators and Other General Industrial Machinery	323	1
Metalworking machinery	269	1
Total for 16 leading exports	24,782	79
Total for commodity category	31,300	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A, January to December, 1986 (Ottawa, Canada, 1987).

Table 13
Leading Rhode Island Exports to Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Fish and Fish Products	4,302	90
Food and Food Materials	306	6
Cereals and Cereal Products	179	4
Fruit and Fruit Juices	11	0
Live Animals	4	0
Total for five leading exports	4,802	100
Total for commodity category	4,803	
Crude Materials		
Metal Ore and Scrap	4,316	68
Man-made Fibers	822	13
Wool and Fine Animal Hairs	338	5
Crude Wood Materials	86	1
Rubber, Gums and other Crude Vegetable Products	64	1
Total for five leading exports	5,626	89
Total for commodity category	6,316	
Fabricated Materials		
Metal (Non-precious) and Basic Metal Products	15,463	35
Textile Fabricated Materials	6,397	14
Precious Metals	5,783	13
Rubber and Plastic Materials	4,225	10
Glass Basic Products	3,301	7
Rubber Fabricated Materials	2,406	5
Pigments, Paints and Other Chemicals	2,147	5
Paper and Paperboard	1,356	3
Natural and Synthetic Gemstones	974	2
Total for nine leading exports	42,052	95
Total for commodity category	44,155	

(Table 13 continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Electronic Computers	13,996	19
Watches, Clocks, Jewelry and Silverware	10,451	15
Games and Toys	3,888	5
Metalworking Machinery	3,844	5
Stationer's and Office Supplies	3,373	5
Electrical Lighting and Equipment	3,130	4
Engines, Generators and other General Industrial Machinery	2,940	4
Electrical Instruments and Measuring Equipment	2,593	4
Electronic and Telecommunications Equipment	2,324	3
Medical Equipment and Supplies	1,871	3
Motor Vehicle Parts	1,537	2
Containers and Closures	1,677	2
Apparel	1,594	2
Safety and Sanitation Equipment	1,560	2
Plastics Machinery	1,259	2
Textile Machinery	1,150	2
Printing Machinery	1,044	1
Aircraft Engines and Parts	590	1
Total for 18 leading exports	58,821	82
Total for commodity category	72,049	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A, January to December, 1986 (Ottawa, Canada, 1987).

Vermont and the FTA

Vermont trade relationship with Canada is heavily skewed in Canada's favor, with 80 percent of bilateral trade consisting of Canadian exports to the state. In 1986, Vermont imported $802 million, while exporting $190 million, leaving a deficit of $612 million. As shown in Figure 9, most of the bilateral trade was in finished goods.

Motor vehicles was the number one Canadian import to the state, with shipments valued at $185 million in 1986 (see Table 14). Railway rolling stock (cars) was not far behind, with the state importing $135 million, followed by telecommunications equipment, $77 million in 1986, and electricity ($74 million). Vermont also relies on Canada for natural gas, importing $14 million, or 56 percent of the state's natural gas consumption in 1986. Canadian lumber, with shipments valued at $62 million, is another major natural reource imported from Canada.

On the export side, Vermont ships a fair portion of finished goods to Canada, as shown in Figure 9 and Table 15. The leading export is electronic tubes and semiconductors, with shipments valued at $81 million in 1986. Aircraft and related parts are second, with shipments of over $18 million in 1986. The state exported about $10 million in lumber to Canada, although this amount was more than offset by the $62 million that Vermont imported from Canada. Vermont also shipped $6 million in metal fabricated products to Canada, and $4 million worth of apparel and footwear north despite strong tariff and non-tariff barriers.

Winners and Losers under the FTA

The FTA could help Vermont achieve a more balanced trade relationship with Canada. Although the state likely would see more Canadian shipments to the state, there are producers in the state who could enter the Canadian market immediately north once tariffs and other trade barriers were removed.

In addition, Vermont is highly dependent on Canada for electricity and natural gas, access to which would improve under the FTA. Long-term, stable Canadian energy resources could help attract new industries to the state, which would mean new employment opportunities.

Railway stock warrants special attention, given the U.S. tariff of 18 percent, which would be removed gradually over ten years. According to the 1988 Industrial Outlook, railroads have depleted their surplus of rolling stock, which may promise a boom for railway carmakers, both in domestic and export markets. U.S. producers of railway cars could potentially face increased competition from Canada if the tariff were removed.

Figure 9

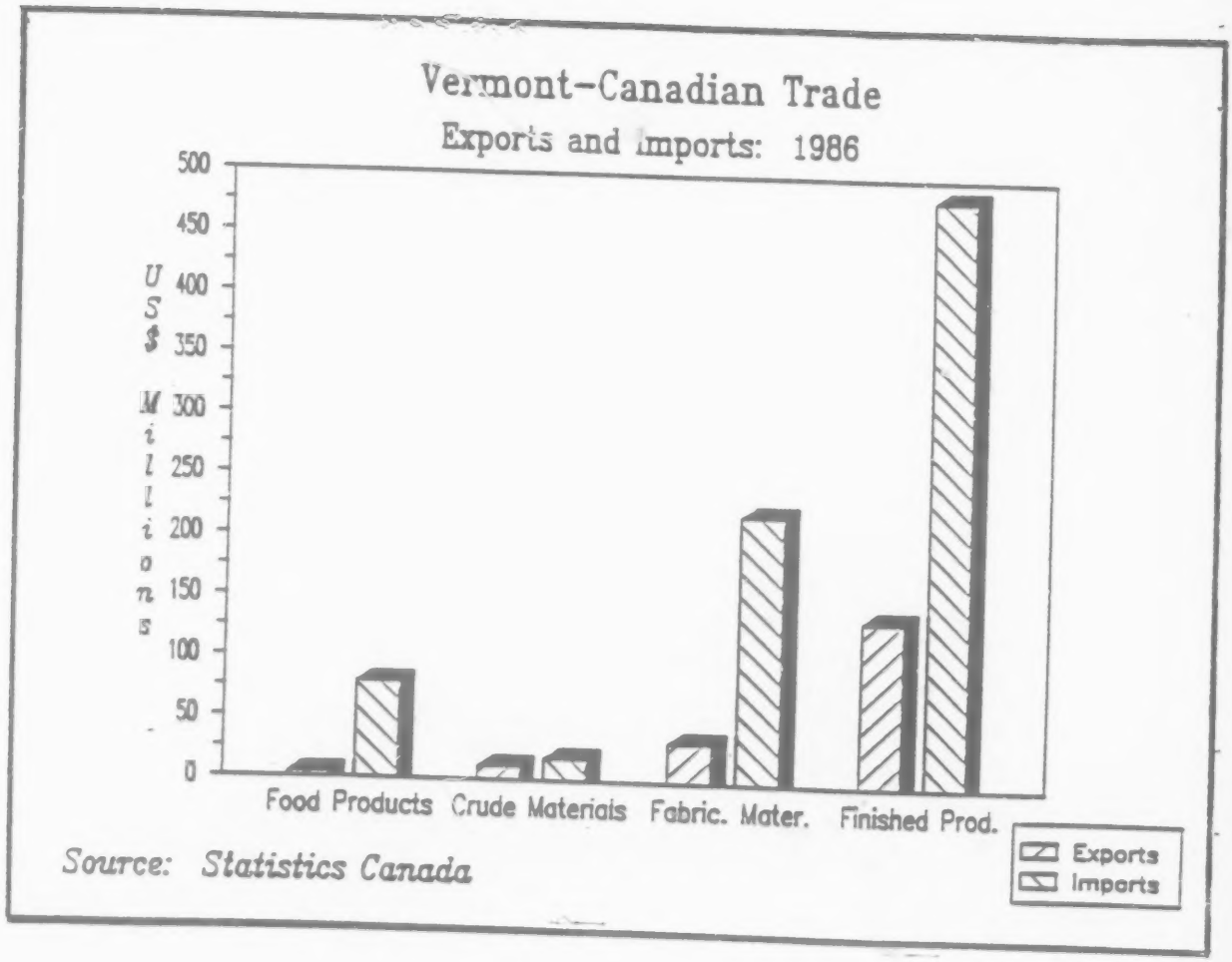

Vermont-Canadian Trade
Exports and Imports: 1986
US$ Millions
500
450
400
350
300
250
200
150
100
50
0
Food Products
Crude Materials
Fabric. Mater.
Finished Prod.
Exports
Imports
Source: Statistics Canada

Table 14
Leading Vermont Imports from Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Food and Food Materials	22,511	28
Feed and Fodder	19,607	25
Sugar and Sugar Preparations	11,149	14
Meat	10,728	14
Cereals and Cereal Products	6,656	8
Live Animals	3,474	4
Dairy, Eggs and Honey	2,485	3
Whiskey and other Beverages	1,894	2
Total for eight leading exports	78,503	99
Total for commodity category	79,409	
Crude Materials		
Natural Gas	13,872	76
Asbestos and other Crude Non-metallic Minerals	2,088	11
Seeds, Oils, Nuts and other Crude Vegetable Products	817	4
Crude Wood Products	636	3
Rawhides, Skins and Other Crude Animal Products	199	1
Total for five leading exports	17,613	97
Total for commodity category	18,234	
Fabricated Material		
Electricity	74,467	34
Lumber	61,732	28
Metal and Basic Metal Products	17,424	8
Wood Pulp	15,113	7
Newsprint and other Paper	11,645	5
Petroleum and Coal Products	11,131	5
Abrasives and other Non-metallic Minerals	11,037	5
Shingles, Plywood and Other Wood Fabricated Materials	8,262	4
Fertilizers and Fertilizer Material	2,876	1
Textile Fabricated Materials	2,025	1
Rubber and Plastic Materials	1,624	1
Total for 11 leading exports	217,338	99
Total for commodity category	220,063	

(Table 14 continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Motor Vehicles	185,388	38
Railway Rolling Stock	137,735	28
Telecommunications Equipment	77,048	16
Aircraft, Engines and Parts	13,629	3
Toys and Games	12,050	2
Apparel and Footwear	7,416	2
Special Industry Machinery	5,573	1
Motor Vehicle Engines and Parts	5,229	1
Hand Tools and Equipment	4,261	1
Prefabricated Buildings and Structures	3,209	1
Printed Material	3,167	1
Engines, Generators and other General Purpose Industrial Machinery	3,139	1
Containers and Closures	2,357	< 1
Total for 13 leading exports	457,846	95
Total for commodity category	483,288	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A, January to December, 1986 (Ottawa, Canada, 1987).

Table 15
Leading Vermont Exports to Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Feed and Fodder	2,014	54
Fish and Fish Products	356	10
Sugar and Sugar Preparations	263	7
Live Animals	245	7
Cereals and Cereal Products	222	6
Cocoa and Chocolate	161	4
Dairy, Eggs and Honey	114	3
Vegetables and Vegetable Products	96	3
Meat	78	2
Fruit and Fruit Products	59	2
Total for ten leading exports	3,607	97
Total for commodity category	3,735	
Crude Materials		
Crude Non-metallic Minerals	5,201	45
Crude Wood Materials	3,251	28
Metal, Ore and Scrap	1,434	12
Man-made Fibers	517	5
Fur Skins and other Crude Animal Products	322	3
Total for five leading exports	10,726	93
Total for commodity category	11,475	
Fabricated Materials		
Lumber	10,186	31
Metals and Basic Metal Products	6,075	18
Paper and Paperboard	4,487	14
Dyes, Pigments, Paint and other Chemical Products	3,699	11
Plywood, Veneer and other Wood Fabricated Products	1,558	5
Textile Fabricated Materials	1,545	5
Gemstones and other Non-metallic Basic Mineral Products	1,133	3
Plastic, Shapes and Forms	1,129	3
Rubber Fabricated Materials	1,122	3
Petroleum and Coal Products	1,042	3
Total for ten leading exports	31,976	97
Total for commodity category	32,854	

(Table 15 continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Electronic Tubes and Semiconductors	80,858	59
Aircraft, Parts and Engines	18,365	14
Hand Tools and Equipment	4,182	3
Apparel and Footwear	3,695	3
Special Industry Machinery	2,611	2
Printed Matter	2,452	2
Engines, Generators and other General Purpose Industrial Machinery	1,971	1
Electrical and other Measuring Equipment	1,936	1
Telecommunications Equipment	1,295	1
Railway Stock	1,125	1
Containers and Closures	1,040	1
Games, Toys and Sporting Goods	1,033	1
Computers	938	1
Furniture and Fixtures	887	1
Watches, Clocks, Jewelry and Silverware	821	1
Agricultural Machinery	776	1
Total for 16 leading exports	123,986	91
Total for commodity category	135,943	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A, January to December, 1986 (Ottawa, Canada, 1987).

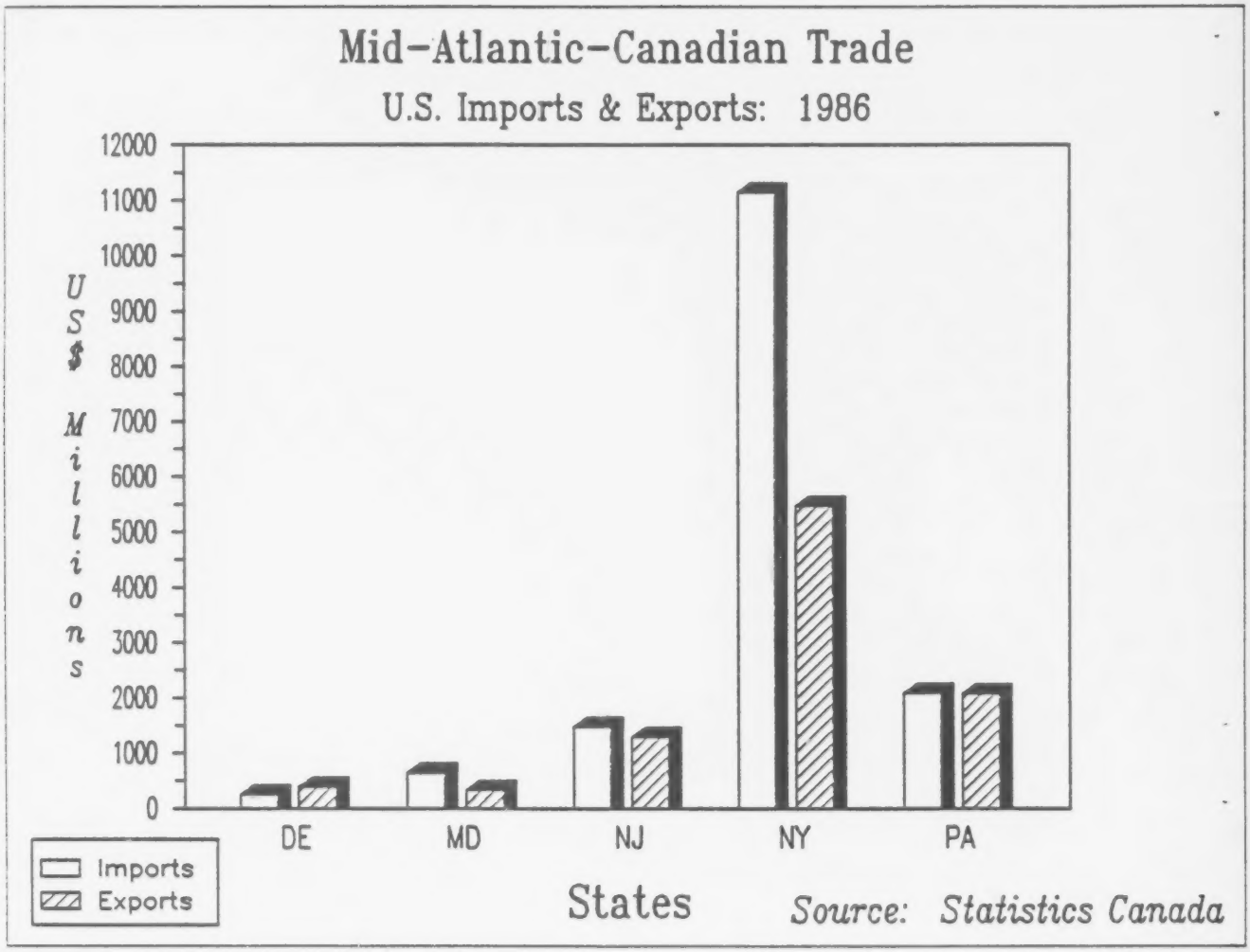
12. MID-ATLANTIC STATE TRADE PROFILES

The following profiles summarize each Mid-Atlantic state's trade relationship with Canada. Based upon analyses in Part I and Part II of this report, this section identifies how the FTA could affect some of the key industries in each state, including those sectors that would likely benefit, not see significant changes, or possibly be disadvantaged by the agreement.

As shown in Figure 10, New York is the dominant trading partner with Canada among the Mid-Atlantic states, with $16.7 billion exchanged between Canada and the state in 1986. Pennsylvania also actively trades with Canada and is one of the few states in the Northeast-Midwest region that enjoys an even bilateral trade balance. Although New Jersey records a small trade deficit with Canada, the deficit is dwarfed by the state's substantial bilateral trade activity. These states, together with Maryland and Delaware, recorded $25.3 billion in total trade with Canada in 1986, as shown in Table 2.

With the strong bilateral trade dependency of the Mid-Atlantic states, state officials, business leaders, manufacturers, and service providers all have much at stake in the agreement. The following analysis should help in assessing the potential value at the state and local level of ratifying the FTA, both from the standpoint of new market opportunities in Canada and an increase in competition resulting from Canadian exports to the United States.

Figure 10


Mid-Atlantic-Canadian Trade
U.S. Imports & Exports: 1986
US$ Millions
12000
11000
10000
9000
8000
7000
6000
5000
4000
3000
2000
1000
0
DE
MD
NJ
NY
PA
Imports
Exports
States
Source: Statistics Canada

Delaware and the FTA

Profile of Trade with Canada

Delaware, although one of the smaller trading partners with Canada, is the only Mid-Atlantic state that recorded a positive trade balance with Canada in 1986. As shown in Table 16, Delaware shipped over $390 million worth of goods to Canada, while Canada shipped $250 million to Delaware, leaving a trade surplus of $140 million.

Fabricated materials dominate Delaware's exports to Canada, (shown in Figure 11 and Table 16). Leading materials include precious metals, with shipments of $110 million or 28 percent of total exports, plastics ($107 million), chemicals ($57 million), and textiles and man-made fibers ($42 million). Photographic goods are the largest finished product exported to Canada, with over $30 million recorded in 1986. Other exports include medical equipment and supplies, and measuring and lab equipment.

Canada ships to Delaware a variety of fabricated materials, as shown in Table 17, including precious metals, lumber, paper and chemicals. But auto parts far outweigh other imported products or material, with $88 million shipped to the state in 1986. Aircraft engines and parts are another important Canadian import. Food products make up a smaller portion of Delaware's imports from Canada, with the primary imports being sugar and beverages, including whiskey.

Winners and Losers Under the FTA

Delaware exporters of photograhphic goods likely would see increased access to the Canadian market with the elimination of a 9 percent to 10 percent tariffs on photo plates and color and instant film (see Table 1). Canadian tariffs on these goods, as well as precious metals, paper and most other fabricated and finished products, are roughly twice as high as U.S. duties. The phaseout of tariffs under the FTA would increase price competitiveness and market access in Canada for Delaware manufacturers.

Although the domestic chemical industry would benefit from the elimination of Canadian tariffs, it remains concerned with the FTA's lack of any substantive provisions on intellectual property rights or subsidies, both of which are non-tariff barriers for chemical imports in Canada.

In addition, the textile industry likely would not see any real benefits from the FTA, despite the phaseout of tariffs over ten years. The agreement contains several provisions that would benefit Canadian textile and apparel producers over U.S. producers, including a higher quota allowance for apparel made from third-country fabric, and a special concession made to allow duty drawbacks for textiles from non-U.S. countries, which Canadian apparel makers would use extensively to reduce their input costs. These provisions are described in detail in Chapter 5.

Figure 11

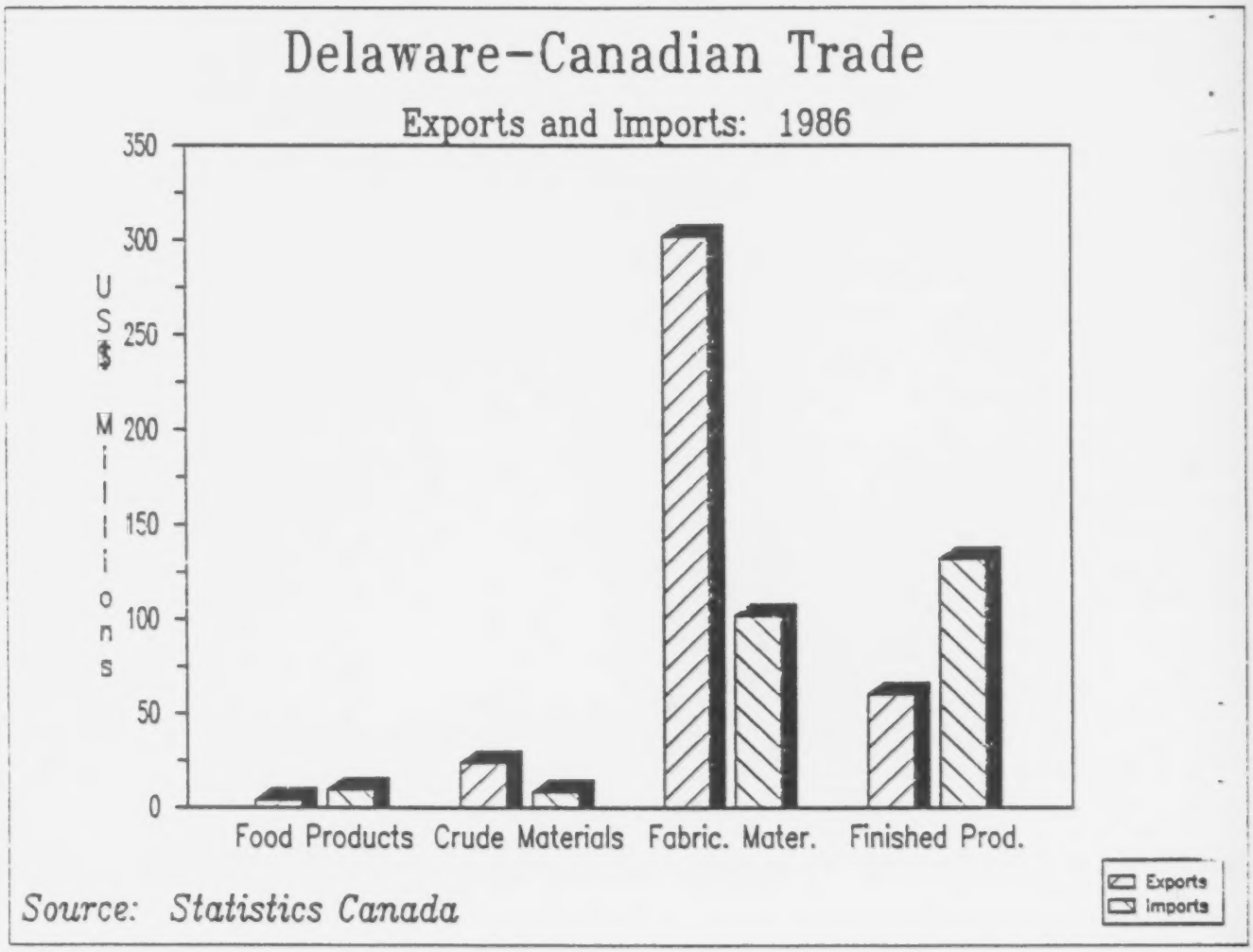

Delaware-Canadian Trade
Exports and Imports: 1986
US $ Millions
350
300
250
200
150
100
50
0
Food Products
Crude Materials
Fabric. Mater.
Finished Prod.
Exports
Imports
Source: Statistics Canada

Table 16
Leading Delaware Exports to Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Fruit	1,302	32
Fish	761	19
Vegetables	473	12
Nuts	309	8
Live Animals	255	6
Feed and Fodder	91	2
Total for six leading exports	3,191	79
Total for commodity category	4,036	
Crude Materials		
Man-made Fibers	22,167	93
Metallic Ore and Scrap (except Aluminum)	571	2
Aluminum	563	2
Crude Vegetable Products	408	2
Crude Mineral Products	26	< 1
Total for five leading exports	23,735	99
Total for commodity category	23,855	
Fabricated Materials		
Precious Metals	110,182	37
Plastics	106,704	35
Chemicals	56,825	19
Textile Fabricated Materials	19,428	6
Wood Pulp and Similar Pulp	2,207	1
Petroleum and Coal Products	1,574	1
Fertilizers	1,495	< 1
Oils, Fats and Waxes	1,107	< 1
Iron and Steel	799	< 1
Metal Fabricated Basic Products	668	< 1
Paper and Paperboard	348	< 1
Rubber Fabricated Materials	137	< 1
Total for 12 leading exports	301,476	99
Total for commodity category	301,865	

(Table 16, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Goods		
Photographic Goods	30,249	50
Medical Equipment and Supplies	4,386	7
Measuring and Lab Equipment	4,115	7
Special Industry Machinery	4,013	7
Electrical Lighting and Equipment	3,230	5
Aircraft Parts	1,578	3
Safety and Sanitation Equipment	1,004	2
General Purpose Industrial Machinery	969	2
Computers	900	2
Motor Vehicle Parts	889	1
Hand Tools and Misc. Equipment	840	1
Telecommunications Equipment	568	1
A/C and Refrigeration Equipment	525	1
Motor Vehicles	493	1
Ships, Boats and Parts	335	1
Printed Materials	294	< 1
Construction and Mining Machinery	222	< 1
Total for 17 leading exports	54,610	91
Total for commodity category	60,008	

SOURCE: Staff Calculations from Statistics Canada. Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada, 1987).

Table 17
Leading Delaware Imports from Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Sugar and Sugar Preparations	6,498	69
Beverages (except Whiskey)	656	7
Vegetables	562	6
Meat	375	4
Grains and Cereals	373	4
Whiskey	189	2
Total for six leading imports	8,653	91
Total for commodity category	9,484	
Crude Materials		
Crude Petroleum	3,942	47
Asbestos, Sulphur and other Crude Minerals	3,901	47
Crude Vegetable Products	251	3
Textile and Related Fibers	104	1
Crude Wood Materials	47	1
Total for five leading imports	8,245	99
Total for commodity category	8,319	
Fabricated Materials		
Precious Metals	38,948	38
Lumber	28,947	28
Newsprint and other Paper	10,915	11
Chemicals	9,370	9
Wood Pulp	3,119	3
Plastics	3,030	3
Fertilizers	2,929	3
Lead	1,044	1
Wood Fabricated Materials	941	1
Metal Fabricated Basic Products	716	1
Abrasives and other Mineral Products	611	1
Petroleum and Coal Products	394	< 1
Iron and Steel (i.e. Rolls, Plate, Pipe)	286	< 1
Textile Fabricated Materials	81	< 1
Total for 14 leading imports	101,330	99
Total for commodity category	101,690	

(Table 17, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Motor Vehicle Parts	87,822	67
Aircraft, Engines and Parts	11,542	9
Metalworking Machinery	7,920	6
Materials Handling Equipment	4,916	4
Hand Tools and Miscellaneous Equipment	4,354	3
General Purpose Industrial Machinery	1,941	1
Electrical Lighting and Equipment	1,597	1
Photographic Goods	1,100	1
Motor Vehicles	712	1
Agricultural Machinery	627	< 1
Prefabricated Buildings and Structures	556	< 1
Measuring and Lab Equipment	486	< 1
Printed Materials	376	< 1
Ships, Boats and Parts	354	< 1
Containers	327	< 1
Heating and Refrigeration Equipment	265	< 1
Office Machines	253	< 1
Telecommunications Equipment	223	< 1
Total for 18 leading imports	125,372	95
Total for commodity category	131,517	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada, 1987).

Maryland and the FTA

Profile of Trade with Canada

The moderate-size trade between Maryland and Canada lies heavily in Canada's favor. In 1986, over $646 million worth of goods, or 65 percent of the trade between the two, was shipped from Canada to Maryland. During that same year, Maryland shipped almost $344 million in goods north to Canada.

Maryland's imports from Canada are distributed across crude and fabricated materials and finished products, as shwon in Figure 12. Canada shipped a total of $105 million worth of iron ores and concentrates in 1986; these crude materials, in combination with iron and steel products, accounted for close to one-quarter of Canada's total shipments to Maryland that year. Other leading materials shipped to Maryland include lumber, paper, and chemicals. Maryland buys a significant volume of finished motor vehicles and parts, followed by industrial machinery, and telecommunications and office equipment (see Table 18).

Also shown in Figure 12, Maryland's exports north are concentrated in finished goods, including motor vehicle parts, hand tools, machinery, and computers and telecom equipment. Chemicals are the leading fabricated material export, with $32 million shipped to Canada in 1986, followed by textiles and plastics (see Table 19).

Winners and Losers under the FTA

Finished goods usually face the highest tariffs, and these goods make up the bulk of Maryland's shipments to Canada. The elimination of tariffs therefore would improve the export performance of the state's most important products. At the same time, Maryland industries would pay less for Canadian raw materials, particularly with the removal of U.S. duties on iron, steel and paper, among others.

Although chemical manufacturers in the state would benefit from the phase-out of tariffs, they remain concerned about the lack of adequate intellectual property right protection in Canada, which the FTA does not address. Intellectual property rights refers to protection from infringement on patents, trademarks, and copyrights on a product. Typically, chemical products require years of research and millions of dollars to develop.

Auto parts producers in the state would not be assured of improved access to the Canadian market under the FTA. The Auto Pact, which governs most bilateral trade, would remain intact, along with Canadian product requirements and duty remissions schemes, which favor purchases of auto parts produced in Canada.

Figure 12

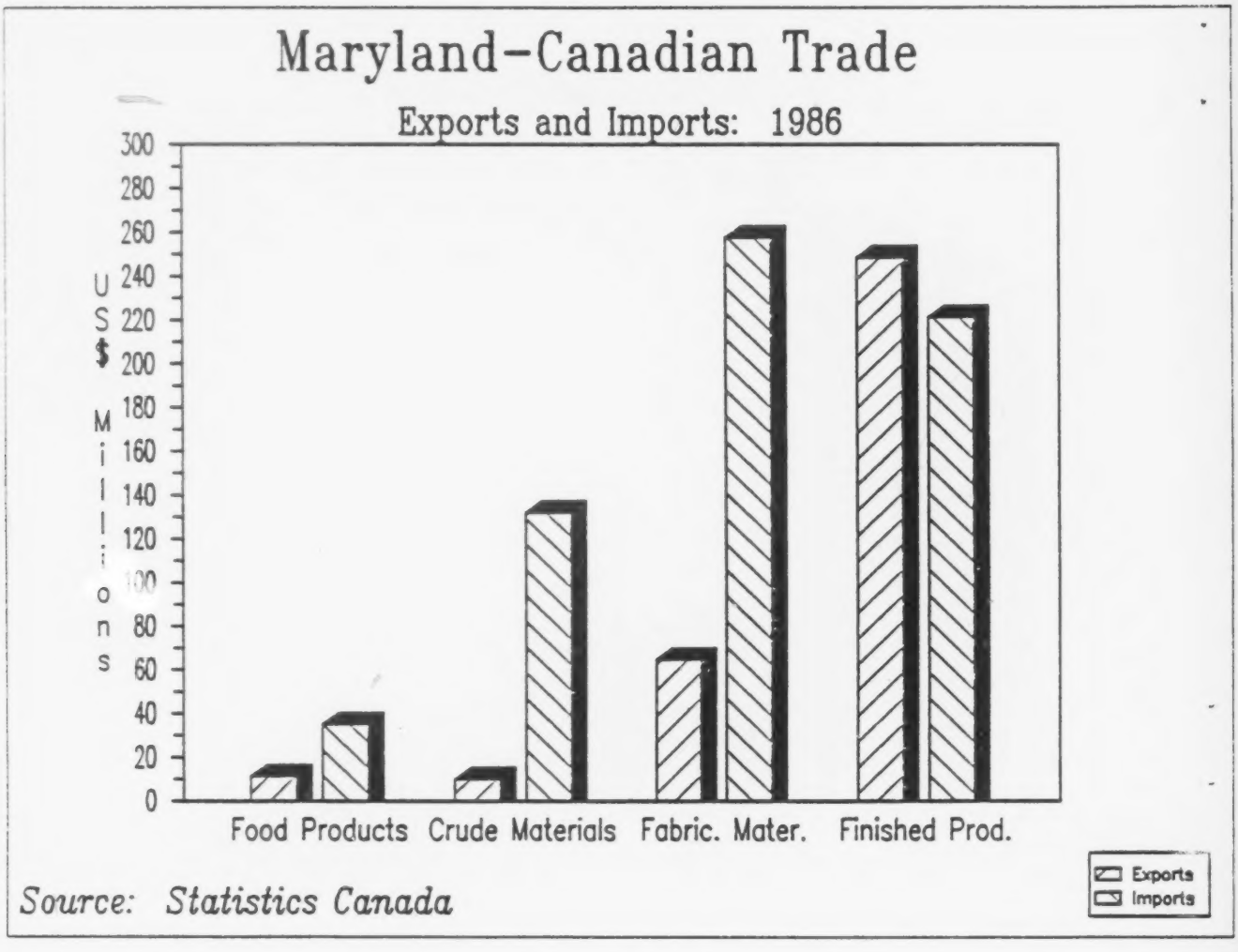

Maryland-Canadian Trade
Exports and Imports: 1986
US $ Millions
300
280
260
240
220
200
180
160
140
120
100
80
60
40
20
0
Food Products
Crude Materials
Fabric. Mater.
Finished Prod.
Exports
Imports
Source: Statistics Canada

Table 18
Leading Maryland Imports from Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Whiskey	7,610	22
Fish	7,259	21
Beverages (except Whiskey)	6,475	18
Meat	3,957	11
Sugar and Sugar Preparations	2,852	8
Vegetables	2,830	8
Grains and Cereals	1,937	6
Total for seven leading imports	32,920	94
Total for commodity category	35,195	
Crude Materials		
Iron Ore and Scrap	105,549	80
Asbestos, Sulphur and other Crude Mineral Products	21,117	16
Seeds and other Crude Vegetable Products	3,153	2
Aluminum	1,028	1
Crude Wood Materials	555	< 1
Textile and Related Fibers	446	< 1
Total for six leading imports	131,848	99
Total for commodity category	132,010	
Fabricated Materials		
Lumber	83,825	33
Paper	57,967	22
Iron and Steel (i.e. Rolls, Plate, Pipe)	49,215	19
Chemicals	16,294	6
Abrasives and other Mineral Products	7,635	3
Aluminum	6,974	3
Plastics	6,953	3
Wood Fabricated Materials	6,453	3
Metal Fabricated Basic Products	6,279	2
Fertilizers	3,893	2
Nickel	2,589	1
Textile Fabricated Materials	2,216	1
Zinc	1,965	1
Total for 13 leading imports	252,257	98
Total for commodity category	257,643	

(Table 18, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Motor Vehicle Parts	56,055	25
Motor Vehicles	31,477	14
Hand Tools and Misc. Equipment	28,711	13
Telecommunications Equipment	12,853	6
Special Industry Machinery	9,793	4
Aircraft, Engines and Parts	9,775	4
Office Machines	8,491	4
Materials Handling Equipment	6,892	3
Heating and Refrigeration Equipment	5,511	2
General Purpose Industrial Machinery	5,037	2
Containers and Closures	3,373	2
Printed Materials	3,160	1
Ships, Boats and Parts	3,011	1
Prefabricated Buildings	2,727	1
Total for 14 leading imports	186,868	84
Total for commodity category	221,191	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

Table 19
Leading Maryland Exports to Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Corn and other Grains and Cereals	4,236	37
Fish	1,618	14
Vegetables	1,047	9
Sugar	410	4
Feed and Fodder	382	3
Fruit	376	3
Coffee	360	3
Total for seven leading exports	8,430	74
Total for commodity category	11,425	
Crude Materials		
Metallic Ore and Scrap	5,373	53
Rubber, Gums and other Crude Vegetable Products	599	6
Crude Minerals	564	6
Textile Fibers	491	5
Skins and other Crude Animal Products	58	1
Total for five leading exports	7,085	70
Total for commodity category	10,137	
Fabricated Materials		
Chemicals	31,542	49
Textiles	6,689	10
Plastics	4,516	7
Nuts, Bolts and other Metal Fabricated Basic Products	4,347	7
Clay Bricks and Tiles	3,907	6
Iron and Steel (i.e. Rolls, Plate, Pipe)	3,592	6
Aluminum	3,553	5
Paper and Paperboard	1,858	3
Total for eight leading exports	60,005	93
Total for commodity category	64,634	

(Table 19, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Goods		
Motor Vehicle Parts	93,241	38
Hand Tools and Misc. Equipment	32,008	13
Telecommunications Equipment	22,612	9
Computers	13,367	5
Construction and Excavation Machinery	12,350	5
Measuring and Lab Equipment	11,828	5
Special Industry Machinery	11,283	5
Printed Materials	7,845	3
Medical Supplies	6,717	3
General Purpose Industrial Machinery	5,013	2
Materials Handling Equipment	4,372	2
Aircraft Parts	3,241	1
Containers and Closures	3,181	1
A/C and Refrigeration Equipment	1,858	1
Motor Vehicles	1,853	1
Photographic Goods	1,844	1
Ships, Boats and Parts	864	< 1
Total for 17 leading exports	233,477	94
Total for commodity category	248,594	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

New Jersey and the FTA

Profile of Trade with Canada

New Jersey enjoys a fairly large and balanced level of trade with Canada. Based on 1986 data, New Jersey exported $1.3 billion to Canada, while importing $1.5 billion. Like other Mid-Atlantic states, with the exception of Delaware, New Jersey's export strength lies in finished products, as shown in Figure 13.

As an industrial state, New Jersey depends on Canada as a major source of raw materials, including paper, precious metals, lumber, chemicals plastics, and iron and steel (see Table 20). Some of these raw materials are further processed and shipped back to Canada. Paper was the number one import in 1986, with shipments reaching almost $250 million, representing 17 percent of total shipments from Canada. Canada also exports a variety of finished goods to New Jersey, including hand tools, motor vehicles and parts, office machines, industrial machinery, equipment, printed materials, and telecommunications equipment.

Although New Jersey ships a wide range of finished products to Canada--including printed materials, medical supplies, computers and telecom equipment, industrial machinery, and auto parts--the leading export north is chemicals, with $151 million in shipments in 1986 (see Table 21). Plastics accounted for another $82 million in exports north. In the agriculture sector, vegetables and sugar or sugar preparations comprise the major farm commodities destined for Canada, followed by fruit, coffee, meat and grains.

Winners and Losers Under the FTA

The elimination of U.S. tariffs under the FTA would reduce the supply costs for New Jersey manufacturers who depend on Canada for raw materials such as metals and paper. Reducing input costs would improve the price competitiveness of New Jersey products in domestic and foreign markets. At the same time, removing Canada's comparatively high tariffs on finished products would improve the price competitiveness of New Jersey machinery, telecom equipment, medical supplies, equipment, photo goods, and other finished exports in the Canadian market.

Obviously, tariffs are not the whole picture. While removing Canada's tariffs, which are as high as 28.6 percent on catalogs and 24.3 percent on advertising materials, would open a heavily protected printing market, non-tariff barriers would remain. Canada would continue to prohibit the entry of publications if more than 5 percent of their advertising content is directed at a Canadian audience. In addition, Canada backed down from what appeared to be an agreement to remove discriminatory postage rates, which are up to six times higher on magazines and newspapers printed in the United States but mailed in Canada.

The FTA is also a mixed agreement for the U.S. chemical industry, although overall it is an improvement over the status quo. New Jersey chemical manufacturers would gain directly from the reduction of Canadian tariffs and increased access to Canadian energy resources. However, the FTA does not address intellectual property rights issues, which protect patents, copyrights and trademarks on a product or design. Because chemical products often require

years of research and millions of dollars to develop, protecting such investment is understandably critical for chemical companies selling in foreign markets. Also of concern is Canadian federal and provincials subsidies given to its domestic industry. The lack of any provisions in the FTA addressing subsidies poses a problem for U.S. chemical producers as well as dozens of other American manufacturers and natural resource suppliers.

The apparel industry, a large employer in New Jersey, does not export significant amounts of merchandise to Canada, primarily because of the prohibitive tariffs, which run as high as 25 percent. Although these tariffs would be phased out over ten years, the FTA would provide more opportunities for Canadian textile and apparel producers to penetrate the U.S. market than American producers would gain in trying to sell in Canada. In addition, the Canadian government has announced it will establish a program to provide duty rebates to its apparel makers for textiles purchased from third countries. The potential adverse effect of the FTA's provisions plus Canada's proposed subsidy program are described in detail in Chapter 5.

Figure 13

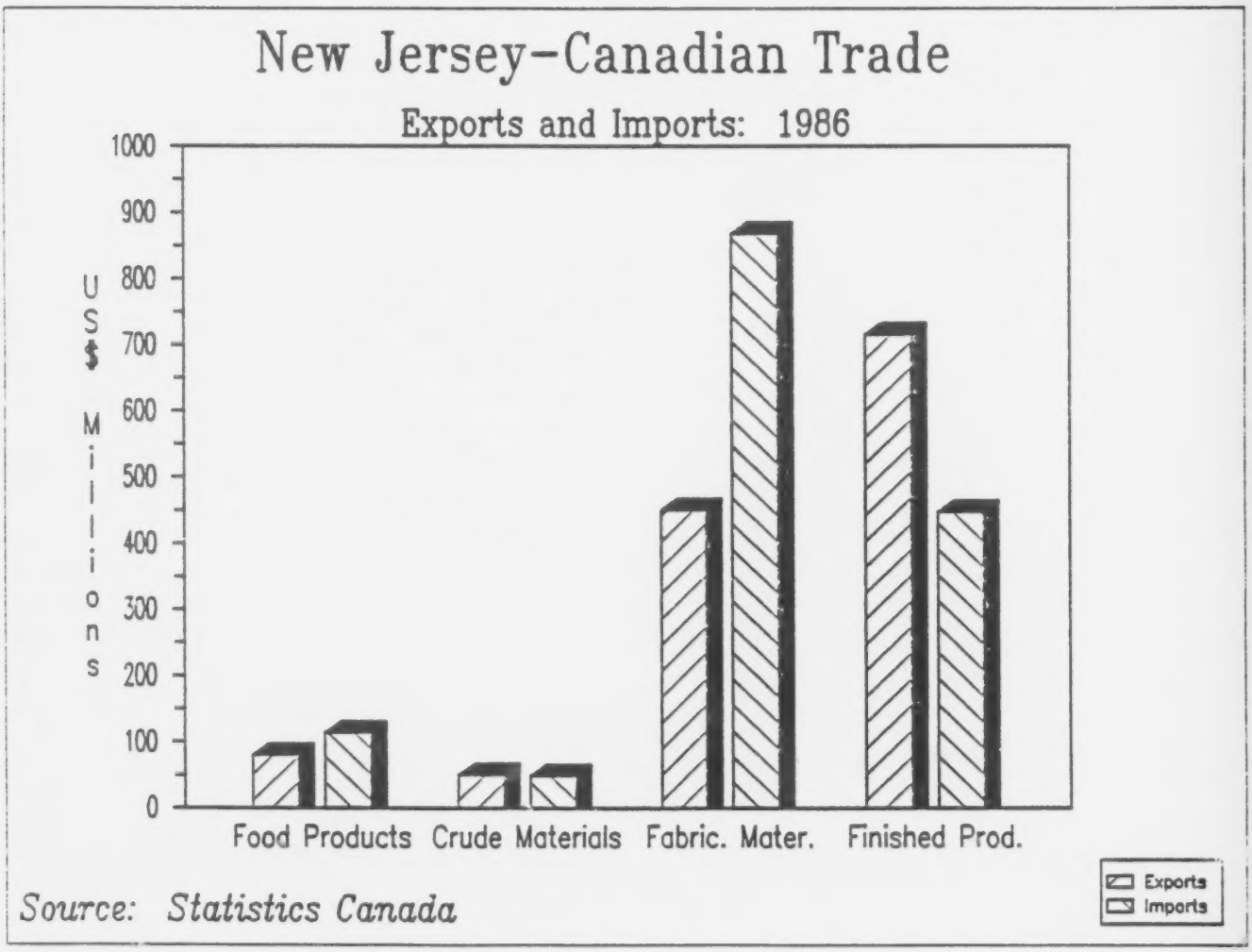

New Jersey-Canadian Trade
Exports and Imports: 1986
US $ Millions
1000
900
800
700
600
500
400
300
200
100
0
Food Products
Crude Materials
Fabric. Mater.
Finished Prod.
Exports
Imports
Source: Statistics Canada

Table 20
Leading New Jersey Imports from Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Meat	19,145	17
Grains and Cereals	15,993	14
Beverages (Except Whiskey)	14,318	13
Fish	9,786	9
Sugar and Sugar Preparations	9,012	8
Whiskey	8,432	7
Vegetables	7,866	7
Live Animals	896	1
Dairy, Eggs and Honey	758	1
Total for nine leading imports	86,205	76
Total for commodity category	113,952	99
Crude Materials		
Metallic Ore and Scrap	13,452	27
Textile and Related Fibers	8,720	18
Seeds and other Crude Vegetable Products	8,148	17
Asbestos, Sulphur and Crude Mineral Products	7,770	16
Skins, Hides and other Crude Animal Products	3,036	6
Precious Metals	2,838	6
Crude Wood Products	2,556	5
Total for seven leading imports	46,520	95
Total for commodity category	49,021	
Fabricated Materials		
Paper	248,635	29
Precious Metals	128,354	15
Lumber	100,767	12
Chemicals	74,448	9
Iron and Steel (e.g., rolls, plate, pipe)	44,334	5
Copper	40,385	5
Plastics	39,560	5
Petroleum and Coal Products	37,254	4
Aluminum	35,722	4
Metal Fabricated Basic Products	28,025	3
Shingles, Plywood and other Wood Fabricated Materials	25,391	3
Wood Pulp	13,356	2
Nickel	12,376	1
Abrasives and other Mineral Products	11,629	1
Lead	7,974	1
Textile Fabricated Materials	6,459	1
Vegetable Oils, Fats and Waxes	1,470	< 1
Total for 17 leading imports	856,138	99
Total for commodity category	867,958	

(Table 20, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Hand Tools and Misc. Equipment	66,135	15
Motor Vehicle Parts	45,256	10
Office Machines and Equipment	43,408	10
Motor Vehicles	40,522	9
Telecommunications Equipment	26,817	6
Containers and Closures	20,705	5
Printed Materials	18,113	4
Aircraft, Engines and Parts	17,431	4
Special Industry Machinery	16,759	4
Ships, Boats and Parts	15,366	3
General Purpose Industrial Machinery	11,092	2
Measuring and Lab Equipment	10,928	2
Prefabricated Buildings	9,064	2
Photographic Goods	8,714	2
Apparel	8,662	2
Medical Supplies	7,980	2
Heating and Refrigeration Equipment	7,726	2
Drilling, Excavating and Mining Machinery	7,662	2
Electrical Lighting and Equipment	7,236	2
Toys, Games and Sporting Equipment	6,338	1
Total for 20 leading imports	395,912	88
Total for commodity category	447,795	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada, 1987).

Table 21
Leading New Jersey Exports to Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Vegetables	13,542	17
Sugar and Sugar Preparations	12,959	16
Fruit	9,461	12
Coffee	8,061	10
Cocoa and Chocolate	6,579	8
Meat	4,492	6
Corn and other Grains and Cereals	4,135	5
Fish	3,714	5
Nuts	1,526	2
Live Animals	1,034	1
Feed and Fodder	1,012	1
Total for 11 leading exports	66,514	83
Total for commodity category	80,178	
Crude Materials		
Metallic Ore and Scrap	18,435	37
Abrasives and other Crude Minerals	9,143	18
Fur Skins and other Crude Animal Products	7,621	15
Crude Petroleum	6,164	12
Seeds and other Crude Vegetable Products	2,409	5
Textile Fibers	727	1
Total for six leading exports	44,498	88
Total for commodity category	50,312	
Fabricated Materials		
Chemicals	151,434	34
Plastics	81,672	18
Nuts, Bolts and other Metal Fabricated Basic Products	31,170	7
Paper and Paperboard	29,909	7
Petroleum and Coal Products	26,619	6
Textile Fabricated Materials	24,890	6
Vegetable Oils, Fats and Waxes	18,678	4
Iron and Steel (i.e. Rolls, Plate, Pipe)	16,772	4
Non-ferrous Metals and Alloys	16,499	4
Precious Metals	13,906	3
Glass Products	3,980	1
Clay Bricks and Tiles	3,149	1
Wood Fabricated Materials	3,073	1
Abrasives and other Mineral Products	3,042	1
Rubber Fabricated Materials	1,975	< 1
Total for 15 leading exports	426,767	95
Total for commodity category	451,207	

(Table 21, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Printed Materials	90,074	13
Medical Supplies	74,878	10
Computers	66,427	9
Special Industry Machinery	54,667	8
Measuring and Lab Equipment	51,877	7
Motor Vehicle Parts	51,502	7
Telecommunications Equipment	41,637	6
Genral Purpose Industrial Machinery	31,080	4
Electrical Lighting and Equipment	29,396	4
Aircraft, Engines and Parts	21,011	3
Hand Tools and Misc. Equipment	20,491	3
Photographic Goods	18,661	3
Containers and Closures	17,984	3
Metalworking Machinery	13,822	2
Drilling, Mining and Construction Equipment	9,838	1
Stationer's and Office Supplies	9,436	1
Safety and Sanitation Equipment	8,966	1
Games, Toys and Sporting Equipment	7,443	1
Electronic Tubes and Semiconductors	6,238	1
Railway Rolling Stock (Cars)	5,538	1
Materials Handling Equipment	4,660	1
Apparel	4,107	1
Ships, Boats and Parts	2,950	< 1
Motor Vehicles	2,547	< 1
Total for 24 leading exports	645,230	90
Total for commodity category	715,613	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December 1986 (Ottawa, Canada, 1987).

New York and the FTA

Profile of Trade with Canada

New York is second in the nation behind Michigan in total trade volume with Canada. This trade relationship weighs heavily in Canada's favor with $11.15 billion worth of merchandise, or 67 percent of the total trade between the two, consisting of Canadian shipments to New York in 1986. In comparison, New York shipped $5.55 billion worth of goods to Canada in 1986 (see Table 3).

As shown in Figure 14 and Table 22, finished goods make up the largest portion of Canadian shipments to New York. Automotive products, including cars, trucks, and parts, make up the bulk of this category, accounting for 39 percent of Canadian shipments to New York in 1986. Other leading finished goods shipped from Canada include industrial machinery and tools, telecommunications equipment, printed materials, and photographic goods. Canada also ships a large amount of raw materials to New York, including precious and non-precious metals, paper, lumber, and chemicals. New York relies on Canada for large quantities of meat, fish, grain, and whiskey.

New York also relies heavily on Canada for energy. In 1986, energy constituted 8 percent of New York's total imports from Canada, including $375 million worth of electricity, $248 million in oil, and $226 million in natural gas.

Finished goods make up the bulk of New York's exports to Canada. As shown in Table 23, the leading export is motor vehicle parts. New York ships a large amount of electronic equipment--computers, semiconductors, telecommunications, and lab equipment--which combined accounted for 15 percent of New York's exports to Canada in 1986. Other leading exports of finished goods include industrial machinery, photographic goods, and printed materials. New York also ships a moderate amount of raw materials to Canada, including metals, chemicals, textiles, paper, and plastics.

Winners and Losers under the FTA

One of the objectives of the FTA is to stabilize energy supplies. New York consumers, industries and utilities, dependent on Canada for energy, would benefit from nondiscriminatory, long-term access to Canada's abundant energy resources provided under the agreement.

New York manufacturers also would benefit from the proposed tariff reductions on both sides of the border. The elimination of U.S. tariffs would mean lower supply costs for raw material imports such as metal and paper, which would improve New York producers' price competitiveness worldwide. At the same time, the elimination of Canadian tariffs (which are generally higher than U.S. tariffs) would help open the Canadian market for New York exports of manufactured goods. Photographic goods, chemicals, metals and metal products, paper and paperboard, and numerous kinds of machinery and equipment are some of the state's products currently exported to Canada that would benefit from the phase out of tariffs.

The FTA does not address all trade barriers. Telecommunications equipment manufacturers in Canada would continue to benefit from restrictive technical

standards that serve to protect them from import competition. In addition, the FTA would not remove a major obstacle to U.S. equipment producers, the preferential purchasing arrangement between Bell Canada and Northern Telecom.

Printed advertising, such as catalogs, face very high tariffs in Canada, which would be phased out over five years. However, strong non-tariff barriers in Canada would remain, including preferential postage and tax treatment for Canadian printing companies.

The Auto Pact would continue to govern most bilateral automotive trade. Although the proposed rule of origin, requiring 50-percent direct cost of processing, would ensure that more automotive production occurs in North America for vehicles shipped across the border, Canadian production safeguards and duty remissions would remain intact, providing few new export opportunities for U.S.-based auto parts producers.

New York employs the most apparel workers among northeastern and midwestern states. The Canadian government is in the process of establishing a program that would provide Canadian apparel producers tariff rebates on textiles imported from countries other than the United States. This program, if enacted, would provide Canadian producers with an unfair competitive advantage.

Figure 14

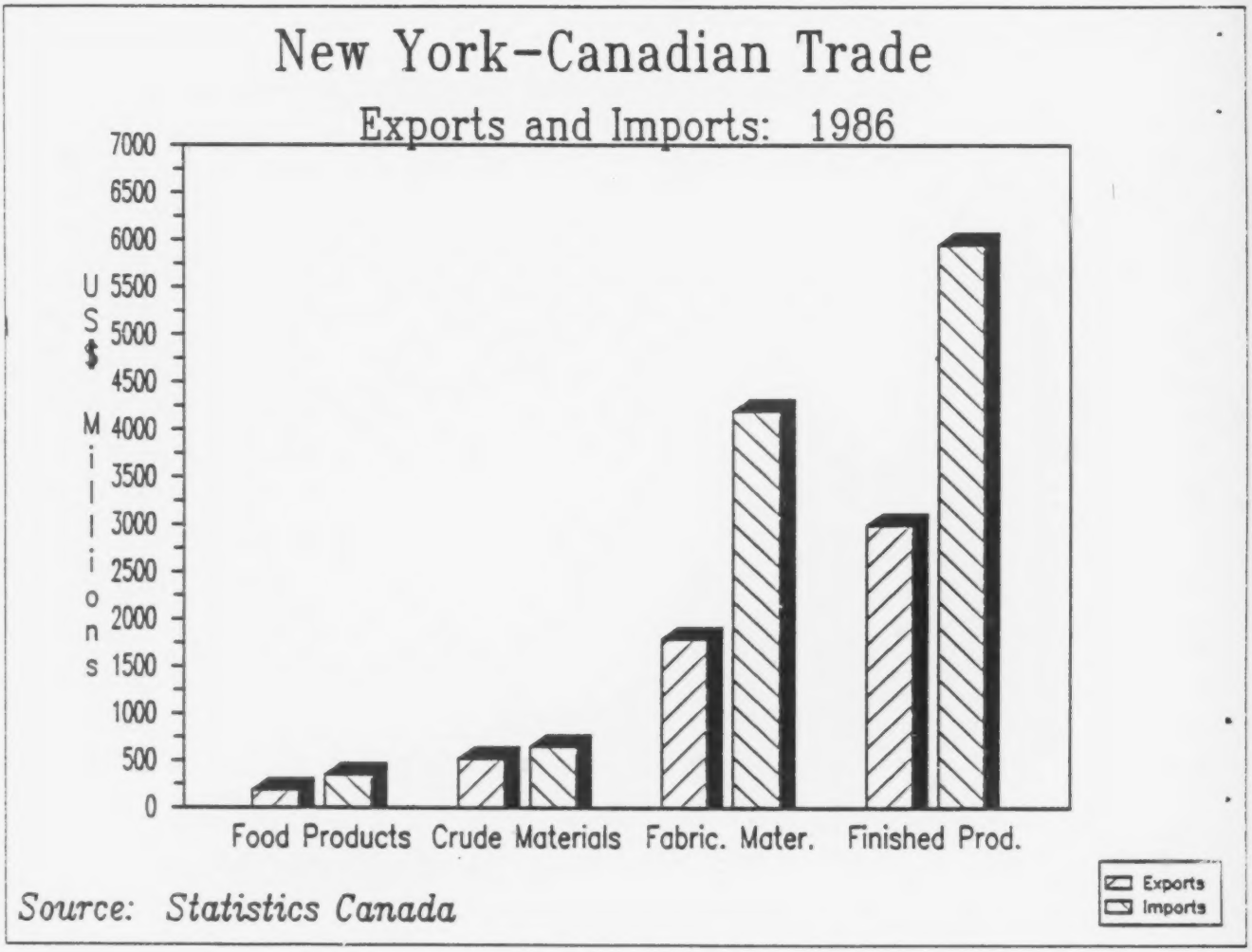

New York-Canadian Trade
Exports and Imports: 1986
US $ Millions
7000
6500
6000
5500
5000
4500
4000
3500
3000
2500
2000
1500
1000
500
0
Food Products
Crude Materials
Fabric. Mater.
Finished Prod.
Exports
Imports
Source: Statistics Canada

Table 22
Leading New York Imports from Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Meat	102,857	30
Fish	50,395	15
Wheat and other Grains and Cereals	39,857	11
Beverages (except Whiskey)	35,210	10
Sugar and Sugar Preparations	34,583	10
Feed and Fodder	22,981	7
Vegetables	18,834	5
Fruit	9,016	3
Live Animals	7,780	2
Whiskey	5,799	2
Tobacco	4,526	1
Dairy, Eggs and Honey	1,443	< 1
Total for 12 leading imports	333,282	96
Total for commodity category	346,742	
Crude Materials		
Crude Petroleum	248,050	38
Natural Gas	226,460	35
Aluminum	54,759	8
Rawhides, Skins and other Crude Animal Products	35,781	6
Seeds and other Crude Vegetable Products	23,619	4
Asbestos, Sulphur and other Crude Minerals	13,727	2
Copper	9,972	2
Precious Metals	7,491	1
Nickel	5,164	1
Crude Wood Materials	3,734	1
Scrap Iron and Steel	3,552	1
Textile Fibers	1,633	< 1
Total for 12 leading imports	633,942	98
Total for commodity category	648,231	

(Table 22, continued)

Commodity	U.S. $1000s	Percent of total category
Fabricated Materials		
Precious Metals	1,540,770	37
Paper	566,127	13
Electricity	374,867	9
Aluminum	336,988	8
Lumber	200,245	5
Petroleum and Coal Products	197,686	5
Iron and Steel (i.e. Rolls, Plate, Pipe)	189,643	5
Wood Pulp	148,908	4
Abrasives	117,509	3
Copper	103,172	2
Chemicals	86,337	2
Metal Fabricated Basic Products	65,556	2
Plywood and other Wood Fabricated Products	63,616	2
Plastics	49,768	1
Zinc	34,069	1
Nickel	33,565	1
Textile Fabricated Materials	23,577	1
Fertilizers	19,400	< 1
Total for 18 leading imports	4,151,801	99
Total for commodity category	4,196,855	
Finished Goods		
Passenger Autos and Chassis	3,410,177	57
Trucks and other Motor Vehicles	517,716	9
Motor Vehicle Parts	391,085	7
Telecommunications Equipment	265,500	4
Special Industry Machinery	166,769	3
Printed Materials	144,895	2
Hand Tools and Misc. Equipment	142,947	2
Photographic Goods	140,652	2
Apparel	107,403	2
Office Machines and Equipment	81,641	1
Engines, Generators and other General Purpose Industrial Machinery	57,818	1
Aircraft, Engines and Parts	45,507	1
Containers and Closures	41,955	1
Toys, Games and Sporting Goods	32,727	1
Electrical Lighting and Equipment	30,519	1
Measuring and Lab Equipment	26,299	< 1
Heating and Refrigeration Equipment	26,250	< 1
Ships, Boats and Parts	11,766	< 1
Total for 18 leading imports	5,641,627	95
Total for commodity category	5,950,683	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

Table 23
Leading New York Exports to Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Coffee	28,039	15
Live Animals	25,090	14
Sugar and Sugar Preparations	21,161	11
Fruit	18,140	10
Cocoa and Chocolate	17,385	9
Feed and Fodder	15,571	8
Fish	12,630	7
Meat	6,823	4
Corn and other Grains and Cereals	6,782	4
Vegetables	6,253	3
Nuts	4,627	3
Dairy, Eggs and Honey	2,298	1
Tobacco	1,672	1
Tea	1,272	1
Total for 14 leading exports	167,743	91
Total for commodity category	184,609	
Crude Materials		
Metallic Ore and Scrap	418,719	81
Fur Skins and other Crude Animal Products	28,522	6
Crude Wood Materials	17,005	3
Abrasives	9,775	2
Crude Vegetable Materials	5,906	1
Textile Fibers	2,505	< 1
Total for six leading exports	482,432	93
Total for commodity category	517,838	

(Table 23, continued)

Commodity	U.S. $1000s	Percent of total category
Fabricated Materials		
Precious Metals	775,997	43
Aluminum	162,553	9
Coal and Petroleum Products	130,019	7
Chemicals	119,767	7
Textile Fabricated Materials	115,732	6
Paper and Paperboard	89,695	5
Plastics	89,376	5
Iron and Steel (i.e. Rolls, Plate, Pipe)	49,580	3
Hardware and Other Metal Fabricated	46,856	3
Lumber	35,222	2
Abrasives and other Mineral Products	29,317	2
Natural and Synthetic Gemstones	25,097	1
Copper	18,706	1
Wood Pulp	17,947	1
Leather	12,207	1
Total for 15 leading exports	1,725,527	96
Total for commodity category	1,788,485	
Finished Products		
Motor Vehicle Parts	741,808	25
Electronic Tubes and Semiconductors	390,894	13
Photographic Goods	236,147	8
Computers	228,777	8
Printed Materials	197,370	7
Railway Rolling Stock (Cars)	132,112	4
Telecommunications Equipment	116,996	4
Special Industry Machinery	112,848	4
Engines, Generators and other General Purpose Industrial Machinery	105,122	4
Measuring and Lab Equipment	97,737	3
Aircraft, Engines and Parts	74,916	3
Electrical Lighting and Equipment	52,454	2
Metalworking Machinery	47,216	2
Containers and Closures	38,529	1
Hand Tools and Misc. Equipment	38,135	1
Medical Supplies	37,208	1
Games, Toys and Recreation Equipment	23,950	1
Materials Handling Equipment	23,505	1
Safety and Sanitation Equipment	20,090	1
A/C and Refrigeration Equipment	18,815	1
Apparel	18,253	1
Stationer's and Office Supplies	14,525	< 1
Total for 22 leading exports	2,793,328	93
Total for commodity category	2,991,888	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

Pennsylvania and the FTA

Profile of Trade with Canada

Pennsylvania enjoys a diverse and balanced trade relationship with Canada. In 1986, the state exported $2.1 billion to Canada, while importing virtually the same amount, leaving a negligible deficit of $6 million. The state's export strength is found mostly in finished products (shown in Figure 15), in which it enjoys one of the most diverse portfolios of northeastern and midwestern states.

Automotive goods, notably auto parts, lead the state in exports, with shipments valued at $214 million in 1986. Pennsylvania also shipped a wide range of machinery, including farm, special industry, and metalworking machinery, as well as a variety of equipment and electronics goods (see Table 24). Fabricated materials that made a strong showing in Canada include plastics, iron and steel products and chemicals.

Pennsylvania's imports from Canada were more concentrated in a few products, including newsprint and other paper, lumber, aluminum, auto parts, and meat. As Table 25 shows, Pennsylvania relies more on fabricated materials than other kinds of Canadian goods, which help supply the state's large manufacturing sector.

Winners and Losers under the FTA

Auto Pact producers in the state would not be assured of increased access to the Canadian market under the FTA. The Auto Pact would continue to govern most bilateral automotive trade. The proposed rule of origin requiring that a product contain a minimum of 50 percent direct cost of processing likely would ensure that more automotive production occurs in North America rather than in third countries. However, Canadian production requirements and duty remissions would remain intact, providing no new export opportunities for U.S.-based auto parts producers. The provisions of the FTA affecting automotive trade are explained in more detail in Chapter 4.

The FTA would phase out tariffs on steel products over five years. While this schedule would provide the maximum amount of time for Pennsylvania steel producers to adjust to increased competition, at the same time it would maintain greater protection for Canadian producers during the phase out period since Canadian tariffs on steel are roughly double U.S. tariff levels. The industry's biggest concern, however, remains outside the FTA. Canada currently is not subject to quotas under the president's Voluntary Restraint Agreement (VRA) program, yet it accounts for 4 percent of all steel imports into the United States, more than any other "non-VRA" country. The debate surrounding this issue is described in more detail in Chapter 5.

On the brighter side, the removal of comparatively high Canadian tariffs on traditional manufactured goods produced in the state such as machinery, electronics and equipment, would boost these products' price competitiveness in the Canadian market. Machinery, in particular, would be traded duty-free after five years, which could add fuel to the industry's current economic recovery.

In addition, Pennsylvania's exports of plastics and chemicals would likely be strengthened by the FTA, including phasing out over five years Canada's 13.8 percent duty on U.S. plastics, potentially creating a significant boost in export sales from the state. Chemicals, while heavily protected by tariffs in both countries, would likely see increased shipments in both directions across the border. In addition, the FTA would improve the ability of American chemical companies to directly invest in Canada, once investment restrictions in Canada were reduced. However, chemical producers in Pennsylvania and elsewhere remain concerned over the lack of adequate patent protection in Canada for their products. The FTA would not address this and other intellectual property rights issues, which potentially could be an impediment to many industries, especially those with high research and development costs.

The long-term benefit for several industries in the state remains at best uncertain. The U.S. textiles and apparel industries, for example, which account for an estimated 151,000 workers in Pennsylvania alone, would probably be treated less favorably under the FTA than their counterparts in Canada. The agreement would provide Canadian apparel makers a significantly higher quota on apparel made from third-country textiles and shipped with preferential duties to the United States. In addition, the FTA provides a special exception to allow duty drawbacks to continue on textiles, a provision included strictly for Canada's benefit. And last, the U.S. textile and apparel industries will have to contend with a new, substantial subsidy if the Canadian government implements a proposed duty remissions program for textiles. This program plus the FTA's treatment of apparel and textiles are explained in detail in Chapter 5.

Figure 15

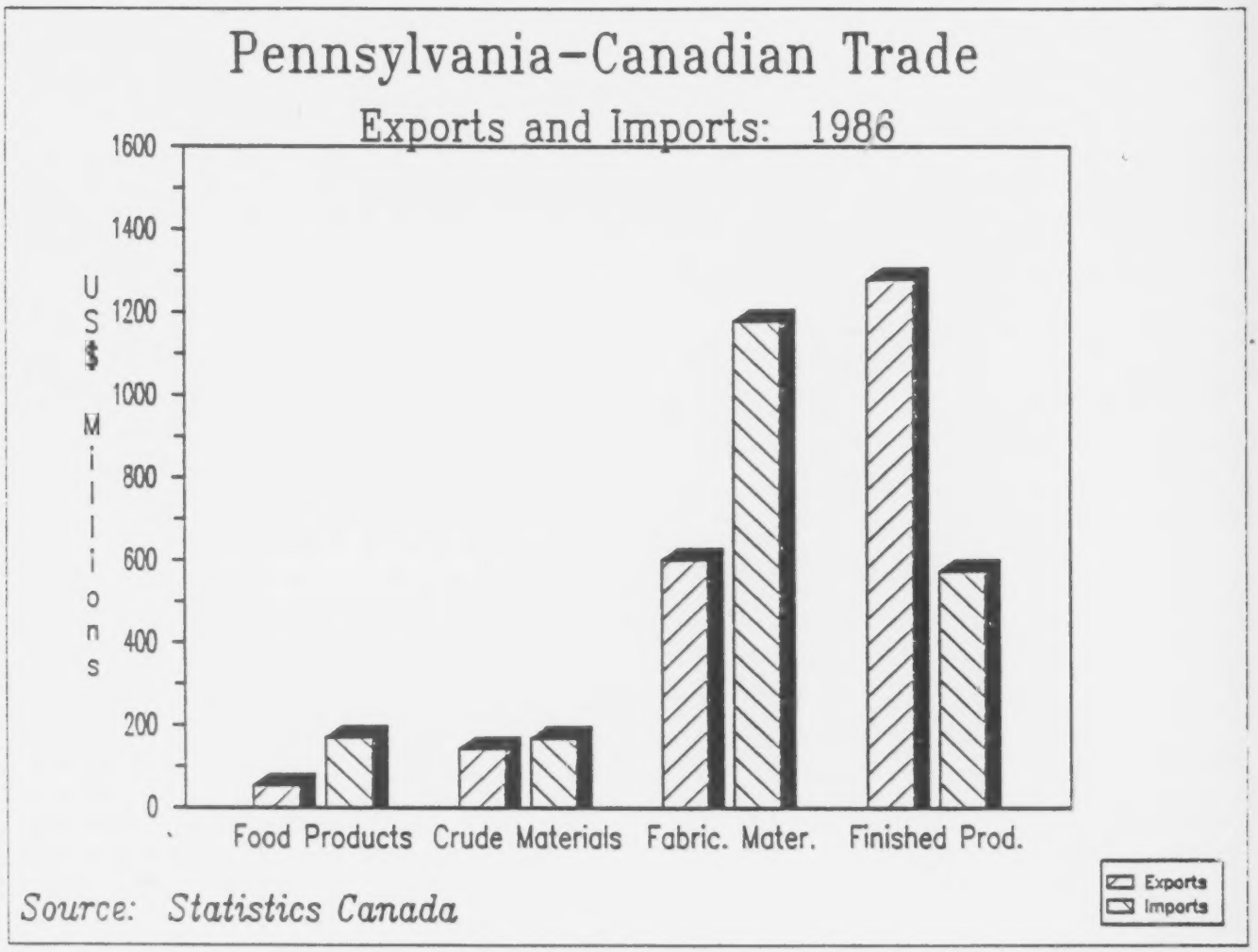

Pennsylvania-Canadian Trade
Exports and Imports: 1986
US $ Millions
1600
1400
1200
1000
800
600
400
200
0
Food Products
Crude Materials
Fabric. Mater.
Finished Prod.
Exports
Imports
Source: Statistics Canada

Table 24
Leading Pennsylvania Exports to Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Cocoa and Chocolate	10,186	19
Sugar and Sugar Preparations	7,718	14
Vegetables	6,485	12
Live Animals	6,466	12
Fruit	6,203	12
Corn and other Grains and Cereals	4,318	8
Fish	3,815	7
Meat	2,332	4
Nuts	1,208	2
Dairy, Eggs and Honey	761	1
Total for 10 leading exports	49,493	92
Total for commodity category	53,554	
Crude Materials		
Iron and Steel	39,744	28
Non-ferrous Metals	37,534	26
Coal	35,954	25
Skins and other Crude Animal Products	8,991	6
Crude Wood Materials	7,210	5
Abrasives and other Crude Mineral Products	4,101	3
Seeds and other Crude Vegetable Products	2,201	2
Total for seven leading exports	135,735	95
Total for commodity category	142,746	
Fabricated Products		
Plastics	90,701	15
Iron and Steel Products	83,600	14
Paints, Dyes and other Chemicals	55,394	9
Organic and Inorganic Chemicals	54,350	9
Hardware and Metal Fabricated Basic Products	51,316	9
Non-ferrous Metals and Alloys	40,754	7
Lumber	36,773	6
Coal and Petroleum Products	31,870	5
Clay Bricks and Tile	29,999	5
Paper and Paperboard	25,043	4
Glass	22,255	4
Abrasives and other Mineral Products	15,376	3
Textile Fabricated Materials	14,075	2
Rubber Fabricated Products	5,152	1
Wood Fabricated Products	4,738	1
Oils, Fats and Waxes	1,213	< 1
Fertilizers	986	< 1
Total for 17 leading exports	563,594	94
Total for commodity category	601,146	

(Table 24, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Motor Vehicle Engines and Parts	213,748	17
Engines, Turbines and other General Purpose Industrial Machinery	114,217	9
Agricultural Machinery	80,648	6
Computers	78,552	6
Automobiles and Chassis	74,845	6
Printed Materials	67,229	5
Measuring and Lab Equipment	61,416	5
Electrical Lighting and Switching	59,935	5
Telecommunications Equipment	47,874	4
Trucks and other Motor Vehicles	46,147	4
Special Industry Machinery	45,321	4
Hand Tools and Misc. Equipment	36,582	3
Railway Rolling Stock (Cars)	35,771	3
Aircraft, Parts and Equipment	30,365	2
Metalworking Machinery	30,212	2
Mining and Construction Equipment	25,754	2
Containers and Closures	23,343	2
Materials Handling Equipment	22,677	2
Electronic Tubes and Semiconductors	19,716	2
Kitchen Utensils	18,407	1
Medical Supplies	15,492	1
Safety and Sanitation Equipment	12,102	1
A/C and Refrigeration Equipment	10,663	1
Apparel	8,952	1
Stationer's and Office Supplies	7,780	1
Bearings	7,720	1
Printing Machinery	7,333	1
Watches, Jewelry and Silverware	6,858	1
Service Industry Equipment	6,695	1
Furniture and Fixtures	5,909	< 1
Games, Toys and Sporting Equipment	5,753	< 1
Ships, Boats and Parts	3,740	< 1
Photographic Supplies	3,682	< 1
Total for 33 leading exports	1,235,440	97
Total for commodity category	1,279,609	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

Table 25
Leading Pennsylvania Imports from Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Meat	73,180	43
Sugar and Sugar Preparations	26,835	16
Live Animals	13,059	8
Fish	11,696	7
Beverages (except Whiskey)	11,321	7
Wheat and other Grains and Cereals	9,975	6
Vegetables	7,872	5
Feed and Fodder	3,504	2
Whiskey and other Beverages	3,268	2
Fruit	2,189	1
Dairy, Eggs and Honey	1,697	1
Total for 11 leading imports	164,596	96
Total for commodity category	170,633	
Crude Materials		
Iron and Steel Ore and Scrap	81,316	48
Nickel	23,932	14
Copper	16,155	10
Seeds and other Crude Vegetable Products	11,202	7
Asbestos and other Crude Mineral Products	10,012	6
Crude Petroleum	8,334	5
Aluminum	5,379	3
Skins, Rawhides and other Crude Animal Products	2,406	1
Total for eight leading imports	158,737	94
Total for commodity category	168,362	
Fabricated Materials		
Newsprint and other Paper	326,967	28
Lumber	160,251	14
Aluminum	138,395	12
Iron and Steel (i.e. Rolls, Plate, Pipe)	116,959	10
Wood Pulp	102,126	9
Nickel	54,285	5
Chemicals	47,159	4
Abrasives and other Mineral Products	37,488	3
Plastics	33,007	3
Metal Fabricated Basic Products	32,070	3
Wood Fabricated Materials	23,096	2
Zinc	22,620	2
Petroleum and Coal Products	18,863	2
Precious Metals	17,329	1
Fertilizers	13,818	1
Lead	9,377	1
Total for 16 leading imports	1,153,810	98
Total for commodity category	1,178,598	

(Table 25, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Goods		
Motor Vehicle Parts	143,803	25
Motor Vehicles	73,029	13
Hand Tools and Misc. Equipment	47,316	8
Office Machines	45,441	8
Special Industry Machinery	31,173	5
Electrical Lighting and Equipment	23,873	4
Engines, Turbines and other General Purpose Industrial Equipment	22,208	4
Transportation Equipment	18,158	3
Telecommunications Equipment	16,464	3
Aircraft, Engines and Parts	15,626	3
Containers and Closures	14,698	3
Railroad Rolling Stock (Cars)	14,472	3
Heating and Refrigeration Equipment	12,937	2
Materials Handling Equipment	10,293	2
Printed Materials	10,122	2
Agricultural Machinery	9,514	2
Measuring and Lab Equipment	7,954	1
Apparel	6,707	1
Prefabricated Buildings	5,903	1
Firearms and Ammunition	5,537	1
Cooking Equipment	4,596	1
Total for 21 leading imports	539,824	94
Total for commodity category	574,232	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

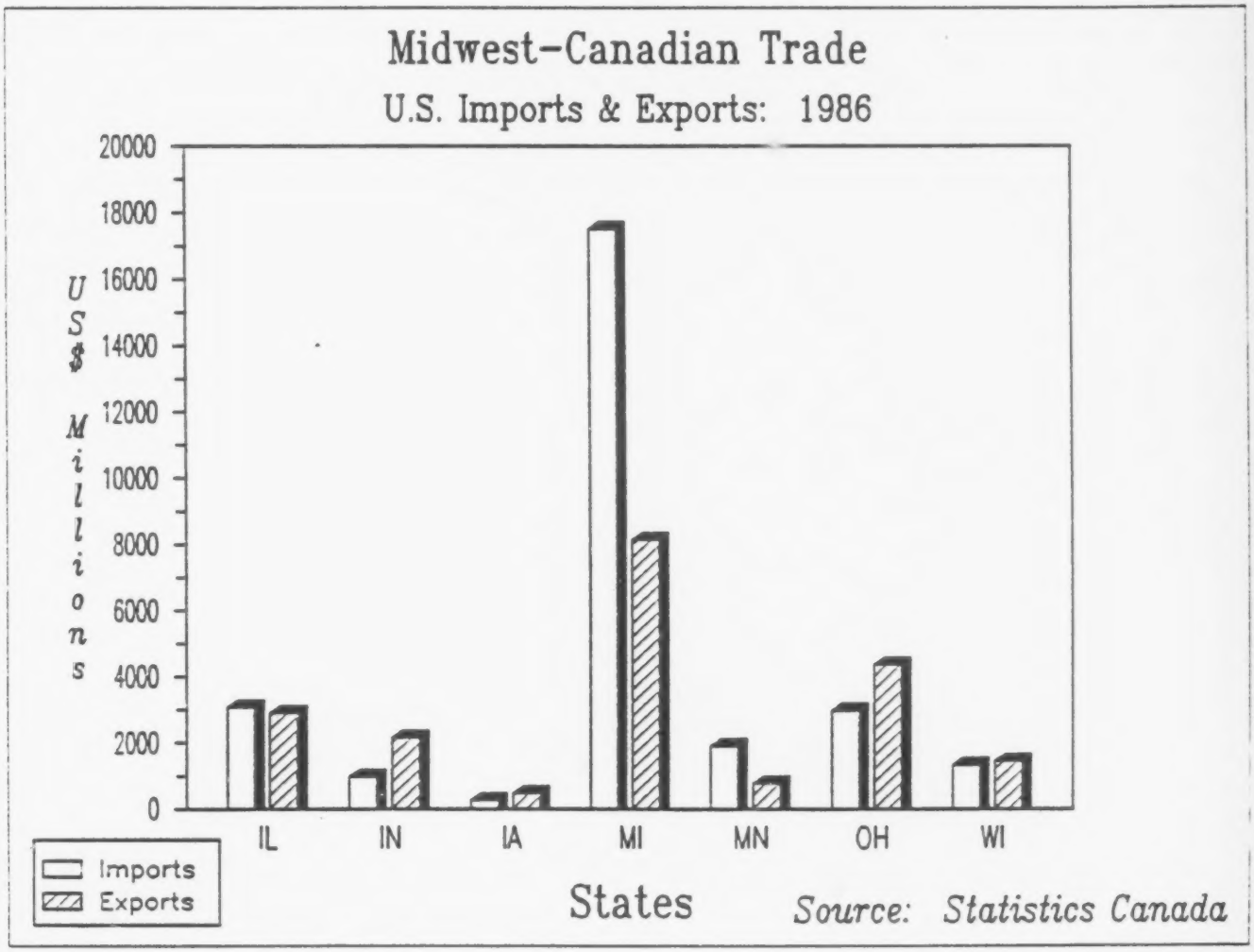
13. MIDWEST STATE TRADE PROFILES

The midwestern states enjoy the greatest volume of trade with Canada of all U.S. regions. In 1986, the seven midwestern states together traded $48.6 billion worth of goods, accounting for 43 percent of the United States' total trade with Canada (see Table 3). The following profiles provide a brief assessment of each state's trade relationship with Canada and how each state potentially stands to gain or lose if the agreement is ratified.

As evident in Figure 16, Michigan dominates the Midwest region's and the nation's trade with Canada, with over $25 billion in total bilateral trade. Ohio is the second largest Midwest trader with Canada and enjoys the largest bilateral trade surplus of the northeastern and midwestern states. Illinois also benefits from a strong trade relationship with Canada, although it records a small trade deficit.

In view of the Midwest region's enormous interdependency with Canada in trade, the region potentially has the most to gain or lose if the FTA were ratified. The following analysis should help state officials and the business community understand how the FTA would affect their commercial interests at the the state or local level.

Figure 16


Midwest-Canadian Trade
U.S. Imports & Exports: 1986
US$ Millions
20000
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
IL
IN
IA
MI
MN
OH
WI
Imports
Exports
States
Source: Statistics Canada

Illinois and the FTA

Profile of Trade with Canada

Illinois enjoys the fourth largest trade relationship with Canada among the 50 states, ranking only behind Michigan, New York, and California. Illinois is one of the few states in the region that enjoys a balanced trade relationship with Canada. Illinois exported $2.95 billion worth of goods to Canada in 1986 while importing $3.08 billion. The $137-million trade deficit, shown in Table 3, is small considering the size of the state's trade with Canada.

Illinois depends on Canada primarily for crude or fabricated materials, as seen in Figure 17 and Table 26. Imports of crude petroleum alone accounted for $796 million, or 32 percent of total shipments to the state. Canada also shipped $46 million in uranium to Illinois in 1986. Other important materials include paper, chemicals, lumber, iron, steel, and other metals. In the area of finished products, Canada ships both motor vehicles, primarily trucks, and auto parts to the state, together totalling $494 million. Illinois also relies heavily on Canada for telecom equipment, apparel, and a variety of industrial machinery.

As shown in Table 27, Illinois' export strength in the Canadian market lies in its enormous diversity in finished products, particularly machinery, which includes agriculture, construction, metalworking, plastics, printing, and other industrial machinery. Taken together, this machinery represented over $800 million, or 28 percent of Illinois shipments to Canada in 1986. But the single largest export product to Canada is auto parts, with 1986 shipments of $403 million, constituting 14 percent of total state exports.

Canada also serves as a leading market for the state's agriculture commodities and products, in particular grain, feeds, and sugar or sugar preparations. In addition, chemicals, plastics, steel, and other fabricated materials account for a significant portion of the export picture. Other leading exports include printed material, telecom equipment and computers, hand tools, and measuring and lab equipment.

Winners and Losers Under the FTA

One of the objectives of the FTA is to stabilize energy supplies. Energy-intensive industries in Illinois, including the chemicals and automotive industries, would benefit from secure access to comparatively inexpensive Canadian energy resources including petroleum and natural gas. Illinois' manufacturers of finished goods, which already command a presence in the Canadian market, would be one of the biggest winners in the state under the FTA. Computers currently face a 3.9 percent Canadian tariff (see Table 1), and while this tariff is not an enormous barrier, its elimination could promise greater price competitiveness and increased sales. The state's industrial machinery manufacturers, who had experienced a slump in the market for the last few years, have recently seen an increase in orders. The phaseout over five years of Canadian tariffs on machinery, which are up to 9.2 percent, could fuel the momentum of this recovery.

Auto parts producers in the state will not be assured of increased access to the Canadian market under the FTA. The Auto Pact would continue to govern most bilateral automotive trade. The proposed rule of origin requiring 50 percent direct cost of processing likely would ensure that more automotive production occurs in North America rather than in third countries. However, Canadian production requirements and duty remissions would remain intact, providing no new export opportunties for U.S.-based auto parts producers. The provisions of the FTA affecting the automotive sector are described in more detail in Chapter 4.

The approximate 26,000 textile and apparel workers in Illinois would not derive any clear gains from the FTA, and possibly would be placed at a disadvantage compared to Canadian producers for several reasons. First, Canada would be allowed a much higher quota allowance on duty-free shipments to the United States of apparel made from third country textiles, compared to U.S. apparel shipped north. Second, the FTA would allow duty drawbacks to be used on textiles, an exception to a prohibition in the agreement on all other products. In contrast to U.S. apparel producers, Canadian apparel makers would use drawbacks extensively in order to reduce their input costs since Canada lacks a significant domestic textile market. Third, the FTA would deny duty benefits for U.S. shipments of 807 garments to Canada. And finally, the Canadian government is trying to set up a new duty remissions program for textiles from third countries, which amounts to a significant subsidy for its apparel industry. The FTA's treatment of textiles and apparel plus the proposed duty remissions scheme are explained in detail in Chapter 5.

Illinois, along with many states in the country, purchases a significant amount of Canadian paper. While the FTA would increase the Canadian paper industry's access to the U.S. market, it would not remove Canadian non-tariff barriers on printed advertising, a major component of this industry. Barriers in Canada include preferential postage and income tax rates for Canadian printers.

The FTA would not remove Canadian subsidies on grain shipped by rail to eastern ports, including Thunder Bay, where most Canadian wheat enters the U.S. market. A variety of other Illinois farm products would be affected by the FTA; their treatment is examined in Chapter 6.

Figure 17

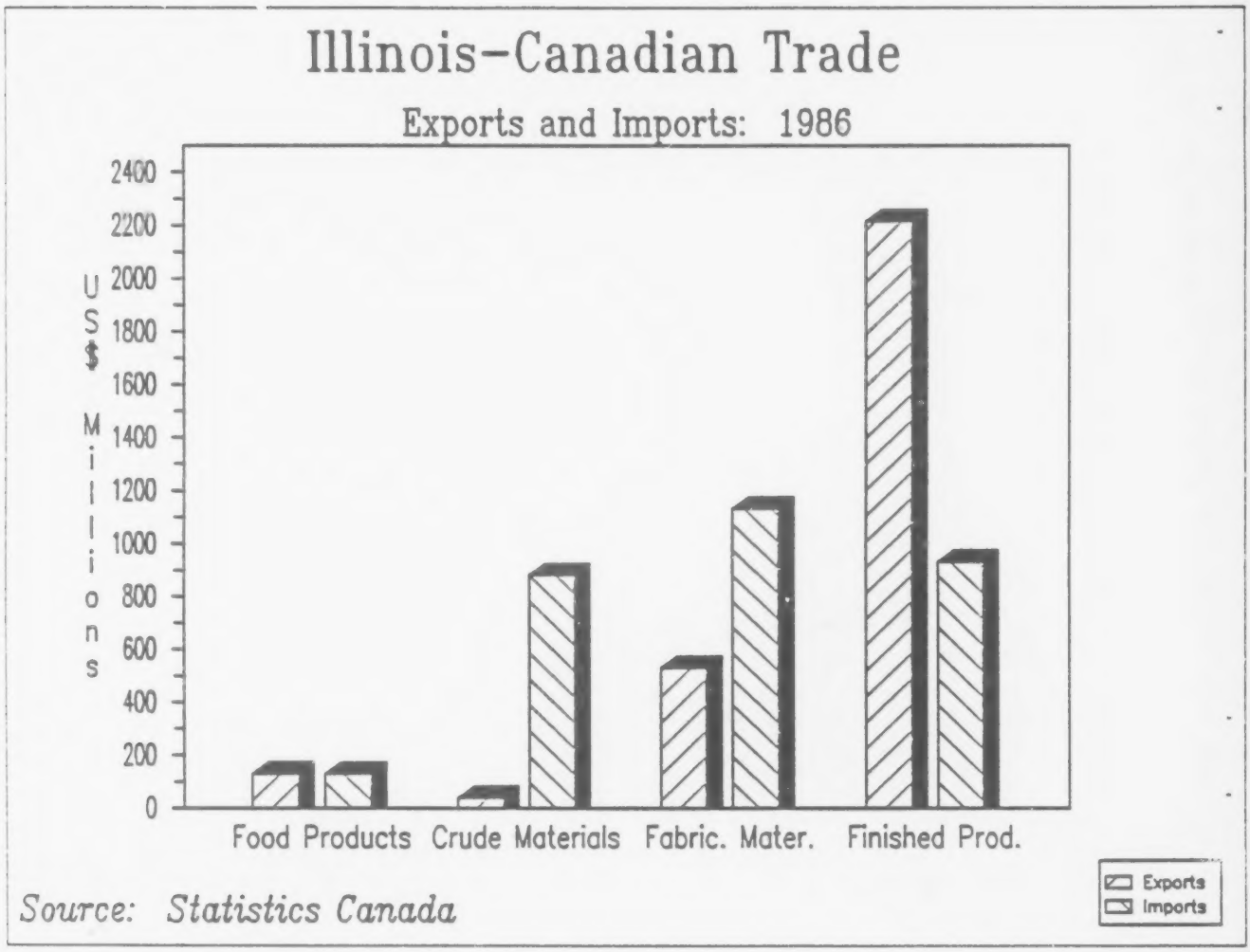

Illinois–Canadian Trade
Exports and Imports: 1986
US$ Millions
2400
2200
2000
1800
1600
1400
1200
1000
800
600
400
200
0
Food Products
Crude Materials
Fabric. Mater.
Finished Prod.
Exports
Imports
Source: Statistics Canada

Table 26
Leading Illinois Imports from Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Meat	25,412	20
Sugar and Sugar Preparations	16,280	13
Grains and Cereals	14,519	11
Fish	14,013	11
Live Animals	7,718	6
Whiskey	7,382	6
Vegetables	5,817	4
Beverages (except Whiskey)	4,473	4
Feed and Fodder	2,344	2
Dairy, Eggs and Honey	1,639	1
Fruit	961	1
Total for 11 leading imports	100,557	78
Total for commodity category	129,694	
Crude Materials		
Crude Petroleum	796,065	90
Radioactive Ores and Concentrates	45,668	5
Seeds and other Crude Vegetable Products	10,918	1
Asbestos, Sulphur and other Crude Minerals	7,652	1
Iron and Steel	6,397	1
Rawhides and other Crude Animal Products	4,539	1
Copper	3,646	< 1
Aluminum	2,511	< 1
Total for eight leading imports	877,396	99
Total for commodity category	881,480	
Fabricated Materials		
Paper	355,328	31
Chemicals	175,491	15
Lumber	117,758	10
Aluminum	87,308	8
Iron and Steel (i.e. Rolls, Plate, Pipe)	71,294	6
Petroleum and Coal Products	60,587	5
Fertilizer	57,234	5
Plastics	49,303	4
Metal Fabricated Basic Products	43,480	4
Copper	27,887	2
Zinc	23,501	2
Wood Fabricated Materials	14,080	1
Abrasives and other Minerals	10,414	1
Nickel	6,766	1
Textile Fabricted Materials	5,320	< 1
Total for 15 leading imports	1,105,752	97
Total for commodity category	1,134,237	

(Table 26, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Trucks	308,686	33
Motor Vehicle Parts	184,960	20
Telecommunications Equipment	54,327	6
Hand Tools and Misc. Equipment	49,517	5
Office Machines	45,036	5
Agricultural Machinery	36,694	4
Engines, Generators and other General Purpose Industrial Equipment	35,947	4
Special Industry Machinery	23,769	3
Ships, Boats and Parts	19,398	2
Construction and Mining Machinery	17,437	2
Apparel	17,014	2
Electrical Lighting and Equipment	14,420	2
Materials Handling Equipment	13,431	1
Computers	11,323	1
Railroad Rolling Stock (Cars)	10,246	1
Aircraft, Engines and Parts	9,510	1
Measuring and Lab Equipment	8,492	1
Printed Materials	8,308	1
Photographic Goods	8,138	1
Motor Vehicles (except Trucks)	5,144	1
Prefabricated Buildings and Structures	3,408	< 1
Total for 21 leading imports	885,202	95
Total for commodity category	933,192	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

Table 27
Leading Illinois Exports to Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Feed and Fodder	36,244	28
Corn and other Grains and Cereals	22,045	17
Sugar and Sugar Preparations	13,386	10
Fish	11,149	9
Cocoa and Chocolate	7,953	6
Meat	7,362	6
Fruit	4,273	3
Vegetables	3,426	3
Nuts	2,591	2
Live Animals	1,015	1
Coffee and Tea	959	1
Tobacco	949	1
Total for 12 leading exports	111,352	85
Total for commodity category	130,646	
Crude Materials		
Abrasives and other Crude Minerals	11,704	30
Metallic Ore and Scrap	11,137	29
Fur Skins and other Crude Animal Products	4,308	11
Seeds and other Vegetable Products	3,460	9
Textile Fibers	271	1
Coal	184	< 1
Total for six leading exports	31,063	80
Total for commodity category	38,821	
Fabricated Materials		
Chemicals	138,498	26
Metal Fabricated Basic Products	78,273	15
Plastics	61,208	12
Iron and Steel	48,865	9
Petroleum and Coal Products	42,222	8
Fertilizers	32,281	6
Aluminum	31,270	6
Glass	16,594	3
Oils, Fats and Waxes	10,509	2
Abrasives and other Minerals	9,764	2
Paper and Paperboard	9,202	2
Textile Fabricated Materials	8,695	2
Rubber Fabricated Materials	8,412	2
Copper	7,056	1
Precious Metals	4,980	1
Clay Bricks and Tile	3,063	1
Total for 16 leading exports	510,892	96
Total for commodity category	530,660	

(Table 27, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Goods		
Motor Vehicle Parts	402,832	18
Agricultural Machinery	283,109	13
Construction and Mining Machinery	242,722	11
Printed Materials	143,940	6
Engines, Generators and other General Purpose Industrial Machinery	127,233	6
Telecommuniations Equipment	113,172	5
Special Industry Machinery	103,112	5
Hand Tools and Misc. Equipment	73,254	3
Computers	69,236	3
Measuring and Lab Equipment	62,826	3
Metalworking Machinery	62,204	3
Railway Rolling Stock (Cars)	61,146	3
Materials Handling Equipment	57,812	3
Electrical Lighting and Equipment	48,226	2
Aircraft, Engines and Parts	48,071	2
Motor Vehicles	41,954	2
Containers and Closures	30,838	1
Ships, Boats and Parts	27,039	1
Medical Supplies	24,994	1
Toys, Games, Sporting Equipment	18,795	1
A/C and Refrigeration Equipment	17,301	1
Photographic Goods	17,131	1
Safety and Sanitation Equipment	16,295	1
Stationer's and Office Equipment	12,808	1
Service Industry Equipment	10,085	< 1
Furniture and Fixtures	9,835	< 1
Apparel	3,302	< 1
Total for 27 leading exports	2,129,271	96
Total for commodity category	2,217,003	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

Indiana and the FTA

Trade Profile with Canada

Indiana enjoys a strong trade surplus with Canada, exporting to Canada more than double what it imports. In 1986, the state exported close to $2.2 billion while importing $983 million from Canada, resulting in a $1.2 billion surplus.

As evident in Figure 18, Indiana's export strength lies in manufactured products. In 1986, finished goods accounted for $1.9 billion, or 88 percent of the state's total exports to Canada. Over $1.2 billion of this amount was comprised of auto parts, the leading Indiana export to Canada. Other major exports of finished goods, shown in Table 28, include televisions and stereos ($89 million), aircraft parts ($60 million), general and special industry machinery and electrical lighting equipment.

Indiana also exports significant quantities of metal fabricated basic products and plastics, each recording $45 million in shipments in 1986, and chemicals ($29 million). The state ships few crude materials and limited amounts of agriculture products, with the exception of feed and fodder ($15 million).

Indiana's imports from Canada are more evenly distributed among fabricated materials, finished goods, and crude materials, as shown in Table 29. Imports of auto parts and crude petroleum are the leading products shipped from Canada to the state, followed by newsprint, aluminum, lumber and a variety of metal and fuel products.

Winners and Losers under the FTA

Auto parts producers in Indiana would not be assured increased access to the Canadian market, despite a higher rule of origin which would encourage automakers in the United States and Canada to purchase more parts produced in North America for vehicles shipped across the border. Automotive provisions of the FTA are explained in detail in Chapter 4.

The FTA would phase out tariffs on steel over ten years, the longest length of time allowed under the agreement. Iron and steel face duties in Canada ranging between 4 percent and 12.5 percent, compared to U.S. duties between 0.9 percent and 7.5 percent. Given the higher tariff protection provided the Canadian domestic market, the elimination of these tariffs should provide an overall benefit to U.S. producers. In addition, the rule of origin established in the FTA, which requires that at least 50 percent of the value of a product orignate in North America before the product receives duty benefits, should prevent Canada from being used as a back door to transship steel from third countries into the U.S. market, a major concern of U.S. producers. The most important domestic concern with respect to Canada, however, is its current exemption from President Reagan's steel quota program, the Voluntary Restraint Agreement program. The FTA does not address this issue, but neither does it preclude the U.S. government from negotiating a VRA with Canada sometime in the future.

Machinery manufacturers in the state should see a boost in sales as Canadian tariffs ranging from 0 to 9.2 percent are phased out over five years. Removal of tariffs should add momentum to the industry's current economic recovery.

The FTA would ensure long-term, nondiscriminatory access to Canada's abundant energy supplies, including oil, electricity and natural gas. While Indiana presently relies on Canada only for crude petroleum, the liberalizing energy provisions of the FTA could provide Indiana with opportunities to increase imports of inexpensive Canadian resources for the state's energy-intensive industries. These provisions could help the state in its long-term, economic planning, as well as reduce a major input cost for local industries and potentially attract new plant investments to the state.

Figure 18

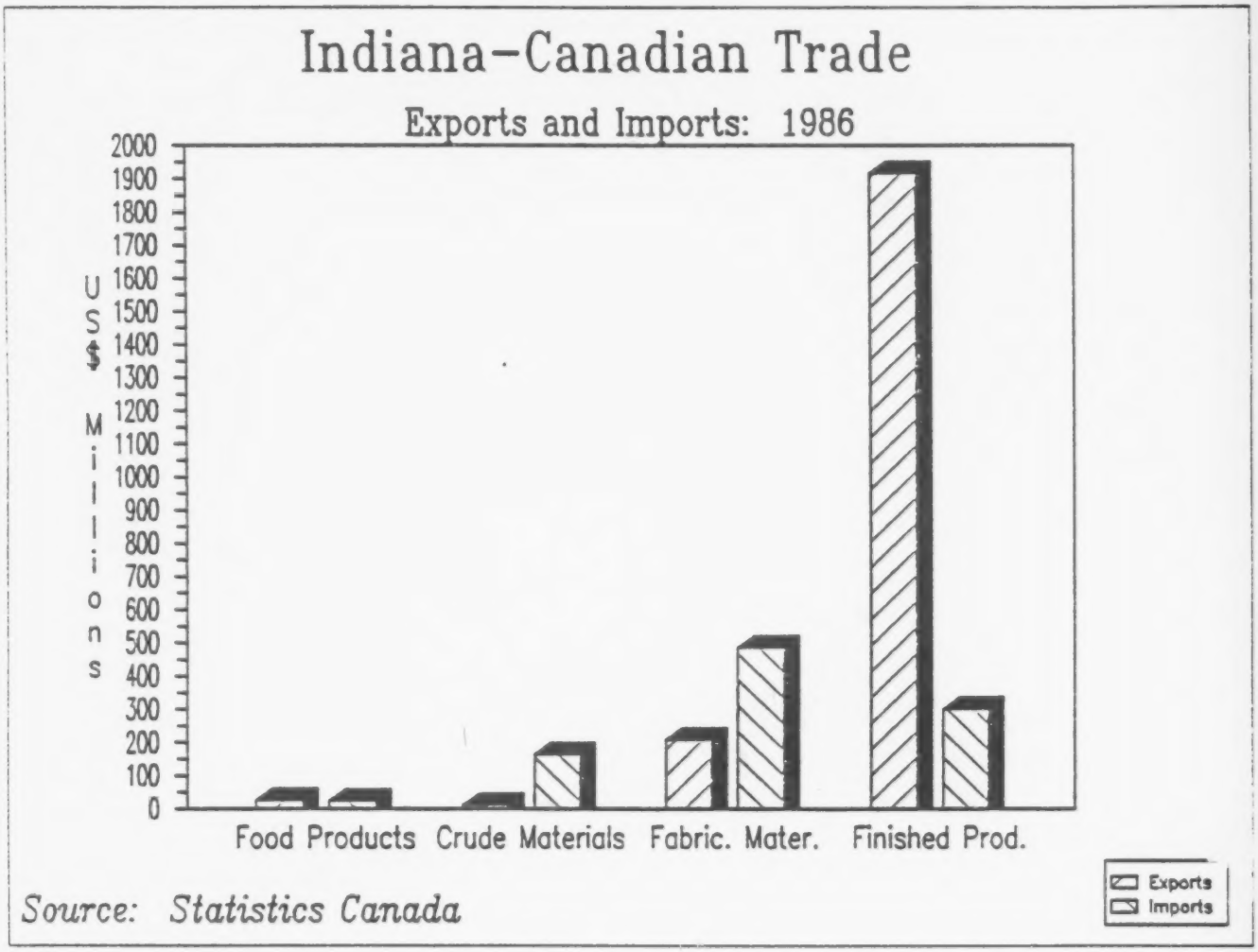

Indiana-Canadian Trade
Exports and Imports: 1986
US$ Millions
2000
1900
1800
1700
1600
1500
1400
1300
1200
1100
1000
900
800
700
600
500
400
300
200
100
0
Food Products
Crude Materials
Fabric. Mater.
Finished Prod.
Exports
Imports
Source: Statistics Canada

Table 28
Leading Indiana Exports to Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Feed and Fodder	14,746	56
Corn and other Grains and Cereal	2,556	10
Live Animals	2,180	8
Sugar and Sugar Preparations	1,894	7
Fish	873	3
Meat	626	2
Dairy, Eggs and Honey	561	2
Fruit	556	2
Coffee	237	1
Vegetables	214	1
Total for ten leading exports	24,443	93
Total for commodity category	26,248	
Crude Materials		
Metallic Ore and Scrap	4,857	41
Fur Skins and other Crude Animal Products	2,560	21
Soy Beans and other Crude Vegetable Products	1,767	15
Abrasives and other Crude Minerals	1,479	12
Crude Wood Materials	262	2
Total for five leading exports	10,925	91
Total for commodity category	11,943	
Fabricated Materials		
Metal Fabricated Basic Products	45,422	22
Plastics	44,662	21
Chemicals	28,971	14
Iron and Steel (i.e. Rolls, Plate, Pipe)	15,172	7
Aluminum	14,527	7
Rubber Fabricated Materials	12,140	6
Petroleum and Coal Products	8,994	4
Copper	4,921	2
Lumber	4,913	2
Plywood and Wood Fabricated Materials	4,611	2
Abrasives and other Mineral Products	3,665	2
Textile Fabricated Materials	3,504	2
Glass	2,819	1
Paper and Paperboard	2,747	1
Nickel	2,438	1
Oils, Fats and Waxes	1,438	1
Total for 16 leading exports	200,945	96
Total for commodity category	209,973	

(Table 28, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Motor Vehicle Parts	1,201,432	63
Televisions and Stereos	89,420	5
Aircraft Parts	59,766	3
General Purpose Industrial Machinery	56,397	3
Hand Tools and Misc. Equipment	55,739	3
Electrical Lighting and Equipment	55,423	3
Telecommunications Equipment	34,103	2
Agricultural Machinery	28,424	1
Medical Supplies	26,186	1
Measuring and Lab Equipment	21,371	1
Computers	18,592	1
Special Industry Machinery	17,290	1
Printed Materials	16,743	1
Motor Vehicles	13,994	1
Construction and Mining Equipment	12,353	1
Electronic Tubes and Semiconductors	12,135	1
Ships, Boats and Parts	11,078	1
Materials Handling Equipment	10,435	1
A/C and Refrigeration	9,063	< 1
Containers and Closures	8,812	< 1
Metalworking Machinery	8,093	< 1
Furniture and Fixtures	4,500	< 1
Service Industry Equipment	4,171	< 1
Railroad Rolling Stock (cars)	3,913	< 1
Kitchen Tools and Cutlery	3,558	< 1
Photographic Goods	3,519	< 1
Total for 26 leading exports	1,786,511	93
Total for commodity category	1,917,119	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

Table 29
Leading Indiana Imports from Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Whiskey	6,273	26
Grains and Cereals	5,376	22
Fish	3,747	15
Meat	2,480	10
Live Animals	2,329	10
Beverages (except Whiskey)	1,962	8
Dairy, Eggs and Honey	671	3
Sugar and Sugar Preparations	443	2
Vegetables	256	1
Total for nine leading imports	23,537	97
Total for commodity category	24,222	
Crude Materials		
Crude Petroleum	119,483	72
Iron and Steel Ore and Scrap	25,985	16
Aluminum	9,060	5
Seeds, Oils and other Crude Vegetable Products	3,799	2
Asbestos, Sulphur and other Crude Minerals	3,255	2
Copper	1,387	1
Nickel	1,231	1
Rawhides and other Crude Animal Products	548	< 1
Total for eight leading imports	164,748	99
Total for commodity category	165,692	
Fabricated Materials		
Newsprint and other Paper	93,400	19
Aluminum	92,742	19
Lumber	70,658	14
Petroleum and Coal Products	35,458	7
Zinc	35,424	7
Iron and Steel Products	33,236	7
Chemicals	26,486	5
Metal Fabricated Basic Products	20,872	4
Copper	20,840	4
Plastics	13,634	3
Nickel	10,564	2
Fertilizer	8,445	2
Plywood and other Wood Products	8,304	2
Abrasives and other Mineral Products	6,890	1
Total for 14 leading imports	476,954	98
Total for commodity category	487,636	

(Table 29, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Motor Vehicle Parts	120,365	40
Motor Vehicles	24,757	8
Special Industry Machinery	17,024	6
Telecommunications Equipment	16,835	6
Engines, Generators and other General Purpose Industrial Machinery	15,184	5
Office Machines	12,964	4
Hand Tools and Misc. Equipment	11,794	4
Materials Handling Equipment	11,734	4
Aircraft Parts	11,638	4
Agricultural Machinery	9,453	3
Metalworking Machinery	7,893	3
Mining and Construction Equipment	5,758	2
Electrical Lighting and Equipment	5,755	2
Containers and Closures	4,959	2
Medical Supplies	3,096	1
Measuring and Lab Equipment	2,686	1
Prefabricated Buildings and Structures	2,401	1
Printed Materials	2,371	1
Total for 18 leading imports	286,668	95
Total for commodity category	302,470	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

Iowa and the FTA

Trade Profile with Canada

Although Iowa recorded the smallest amount of trade with Canada of the Midwest states in 1986, it enjoyed a positive bilateral trade balance of $209 million. The state exported $483 million in goods north, while importing $274 million from Canada that year.

As seen in Figure 19, Iowa's exports to Canada are concentrated in finished goods. The number one export was farm machinery in 1986, valued at $86 million (see Table 30). Exports of other machinery--including drilling and mining machinery and general purpose machinery--contribute to the state's positive trade balance. Hand tools also make a strong showing, with $45 million exported to Canada, as well as auto parts, with shipments valued at $42 million. Iowa ships some telecommunications equipment ($15 million) and printed materials ($13 million).

The state also exports a variety of fabricated materials, including wood, aluminum, and chemicals. Although agriculture goods produced in the state are not a primary export to Canada, the state ships a significant volume of feed and fodder ($11 million) and grains such as corn and cereals ($10 million).

On the import side of the balance sheet, fabricated materials account for the largest category of Canadian shipments, at the top of which is newsprint and other paper, valued at $60 million in 1986 (see Table 31). Other major fabricated material imports include fertilizers, lumber, chemicals, and iron, steel and aluminum. Natural gas and live animals are also important imports from Canada.

Winners and Losers under the FTA

Machinery producers in Iowa could potentially be major winners under the FTA. As shown in Table 1, Canadian tariffs on machinery imports run roughly twice as high as U.S. duties. The phaseout of these tariffs over five years should provide opportunities for Iowa's machinery manufacturers to increase sales in the Canadian market. Moreover, the elimination of tariffs could fuel the current rebound which the U.S. machinery industry is experiencing.

Auto parts producers in the state would not be assured of increased access to the Canadian market under the FTA. The Auto Pact would continue to govern most bilateral automotive trade. The proposed rule of origin requiring 50 percent direct cost of processing likely would encourage more automotive production in North America rather than in third countries. However, Canadian production requirements and duty remissions would remain intact, providing few new export opportunities for U.S.-based auto parts producers.

Grains and feeds, Iowa's leading agriculture commodities shipped to Canada, would continue to face substantial Canadian transportation subsidies for grain produced in the Prairie provinces and shipped to eastern ports for export. In addition, the Canadian Wheat Board's restrictive import licensing system would remain in effect under the FTA unless the U.S. government reduces its support for wheat, oats and barley to Canadian support levels. These policies are described in more detail in Chapter 6.

Figure 19

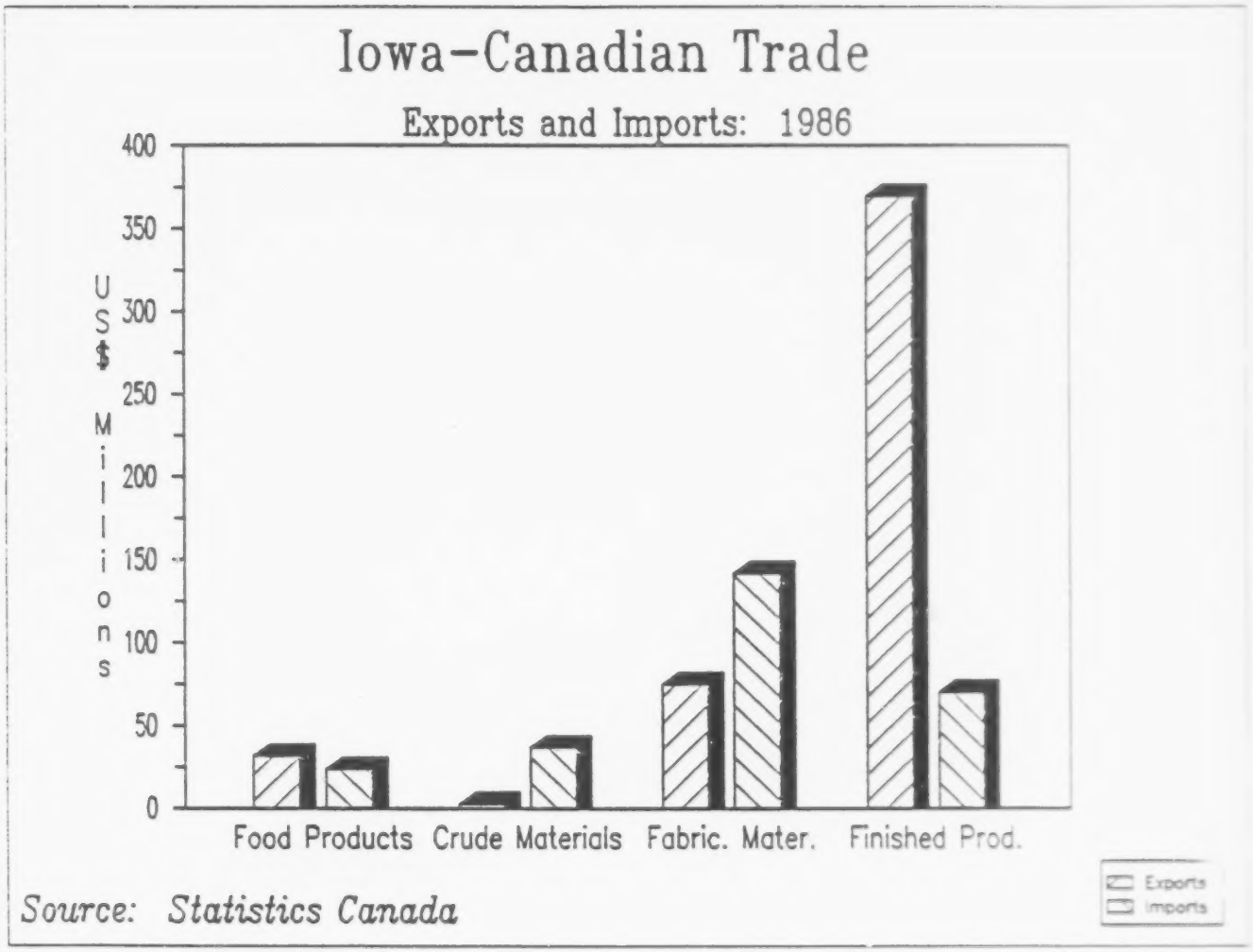

Iowa-Canadian Trade
Exports and Imports: 1986
US $ Millions
400
350
300
250
200
150
100
50
0
Food Products
Crude Materials
Fabric. Mater.
Finished Prod.
Exports
Imports
Source: Statistics Canada

Table 30
Leading Iowa Exports to Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Feed and Fodder	11,157	35
Corn and other Grains and Cereals	9,916	31
Sugar and Sugar Preparations	3,121	10
Meat	1,807	6
Live Animals	733	2
Total for five leading exports	26,734	84
Total for commodity category	31,751	
Crude Materials		
Furs, Skins and other Crude Animal Products	2,054	75
Rubber, Gums and other Crude Vegetable Products	413	15
Aluminum Ore and Scrap	84	3
Iron and Steel Ore	31	1
Soy Beans and other Seeds	40	1
Total for five leading exports	2,622	96
Total for commodity category	2,742	
Fabricated Materials		
Chemicals	14,573	19
Wood Fabricated Materials	14,194	19
Aluminum	13,348	18
Plastics	8,289	11
Nuts, Bolts and other Metal Fabricated Products	7,803	10
Rubber Fabricated Materials	4,159	6
Iron and Steel (i.e. Rolls, Plate, Pipe)	3,734	5
Textile Fabricated Materials	2,535	3
Glass Products	997	1
Oils, Fats and Waxes	979	1
Paper and Paperboard	853	1
Lumber	820	1
Total for 12 leading exports	72,283	96
Total for commodity category	75,137	

(Table 30, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Agricultural Machinery	85,912	23
Drilling, Excavating and Mining Machinery	46,509	13
Hand Tools and Misc. Equipment	44,885	12
Motor Vehicle Engines and Parts	42,449	11
Telecommunications Equipment	14,921	4
Engines, Turbines and other General Purpose Industrial Machinery	14,283	4
Printed Materials	12,896	3
Motor Vehicles	10,442	3
Materials Handling Equipment	9,280	3
Aircraft Engines and Parts	7,885	2
A/C and Refrigeration Equipment	7,094	2
Construction Equipment	6,728	2
Stationer's and Office Supplies	5,330	1
Service Industry Equipment	4,646	1
Measuring and Lab Equipment	4,600	1
Medical Supplies and Equipment	3,938	1
Metalworking Machinery	2,473	1
Computers	2,439	1
Total for 18 leading exports	326,711	88
Total for commodity category	369,600	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

Table 31
Leading Iowa Imports from Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Live Animals	16,988	71
Grains and Cereals	2,230	9
Dairy, Eggs and Honey	2,000	8
Whiskey	672	3
Meat	588	2
Feed and Fodder	530	2
Fish	448	2
Total for seven leading imports	23,456	98
Total for commodity category	23,865	
Crude Materials		
Natural Gas	29,286	79
Metallic Ore and Scrap	5,301	14
Seeds for Sowing and other Crude Vegetable Products	1,579	4
Sulphur	259	1
Skins, Rawhides and other Crude Animal Products	251	1
Total for five leading imports	36,677	99
Total for commodity category	36,986	
Fabricated Materials		
Newsprint and other Paper	60,385	43
Fertilizers	26,871	19
Lumber	9,763	7
Chemicals	9,599	7
Iron and Steel Materials	8,279	6
Aluminum	5,982	4
Plastics	5,126	4
Metal Fabricated Materials	3,444	2
Abrasives	2,637	2
Wood Pulp	1,871	1
Wood Fabricated Materials	1,146	1
Petroleum and Coal Products	1,036	1
Textile Fabricated Materials	891	1
Lead	789	1
Total for 15 leading imports	137,818	97
Total for commodity category	141,946	

(Table 31, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Agricultural Machinery	12,289	17
Transportation Equipment	10,067	14
Telecommunications Equipment	9,615	14
Motor Vehicle Engines and Parts	9,526	14
Special Industrial Machinery	6,349	9
Hand Tools and Equipment	4,672	7
Trucks and other Motor Vehicles	2,311	3
Engines, Generators and other General Purpose Industrial Machinery	2,195	3
Materials Handling Equipment	2,005	3
Drilling and Mining Machinery	1,513	2
Heating and Refrigeration Equipment	1,454	2
Containers and Closures	1,388	2
Office Machines	839	1
Prefabricated Buildings	768	1
Total for 14 leading imports	64,990	92
Total for commodity category	70,314	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

Michigan and the FTA

Profile of Trade with Canada

A number of factors, including geographic proximity and the presence of the automotive industry, help make Michigan the largest trading partner with Canada of the 50 states. In 1986, Michigan accounted for $25.7 billion worth (26 percent) of total U.S. merchandise trade with Canada (see Table 3). This trade weighs heavily in Canada's favor, with $17.5 billion (68 percent) consisting of Canadian shipments to Michigan in 1986. By comparison, Michigan exported to Canada $8.2 billion, or 32 percent, of the trade between the two in 1986. Figure 20 shows that most of the state's trade is in finished goods.

As seen in Table 32, the bulk of Michigan's imports from Canada are automotive products--finished vehicles as well as engines and parts -- which accounted for $14.6 billion or 83 percent of Michigan's total imports from Canada in 1986. Other manufactured goods imported from Canada include industrial machinery, electronic equipment, and apparel.

Michigan also depends on Canada for raw materials and natural resources, including iron, steel, paper, lumber, chemicals, and plastics. Michigan depends on Canada for some of its energy supply, importing $278 million worth of oil, $192 million in natural gas, and $15 million worth of electricity in 1986.

Canada ships significant quantities of food products to the state, including whiskey, fish, meat, grain, and vegetables. While all the states in the region are net importers of meat from Canada, Michigan is the only state that exports a significant amount of meat to Canada and also enjoys a relative balance in meat trade, exporting $23.5 million and importing $28.5 million in 1986.

Michigan exports a large amount of automotive parts north to Canada, with shipments valued at $5.9 billion in 1986 (see Table 33). Other leading manufactured goods exported to Canada include industrial and agricultural machinery, metalworking machinery, computers, telecommunications equipment, printed materials and furniture. Although finished goods dominate Michigan's trade profile with Canada, the state ships considerable quantities of raw materials to Canada, including petroleum and coal products, iron, steel, plastics, chemicals, glass and paper.

Winners and Losers under the FTA

The Auto Pact would continue to govern most bilateral automotive trade. Although the proposed rule of origin, requiring 50-percent direct cost of processing, would likely ensure that more automotive production occurs in North America, Canadian production safeguards and duty remissions would remain intact, providing few, if any, new export opportunities for U.S.-based auto parts producers. For this reason, the balance of automotive trade would likely remain in Canada's favor. In addition, the FTA would freeze Auto Pact benefits to those producers currently qualified, or that would become qualified by January 1, 1989. This provision therefore would exclude most third-country automotive manufacturers such as Hyundai and Honda from becoming Auto Pact members.

Canada would terminate its export-based duty remissions program on January 1, 1989, the date on which the FTA would take effect. However, Canada's production-based duty remissions program would be allowed to continue until January 1, 1996, or until existing contracts between the Canadian government and the recipient manufacturers expire. A more complete discussion of automotive trade is contained in Chapter 4 of this report.

Other manufacturing industries such as machinery and furniture would likely gain an increased market share from the FTA's proposed elimination of tariffs. Computer exporters, for example, would no longer have to factor the 3.9 percent Canadian tariff into their pricing strategy as this tariff would be eliminated immediately under the FTA (see Table 4). Although Canadian tariffs on telecommunications equipment of up to 17.8 percent would be phased out over five years, other non-tariff barriers would remain, in particular discriminatory technical standards and a preferential purchasing arrangement between Bell Canada and Northern Telecom.

Removing U.S. import duties would reduce Michigan manufacturers' costs of imported raw materials such as metal, lumber, paper and chemicals, which go into making a variety of finished goods. Lowered costs of supplies also would increase their ability to be price competitive in world markets.

The FTA includes provisions to stabilize trade in energy. For Michigan consumers, industries, and utilities, who are dependent on Canadian energy, the FTA would provide long-term access to inexpensive Canadian energy. Stable access to inexpensive energy would also make Michigan an attractive location for new plants.

Figure 20

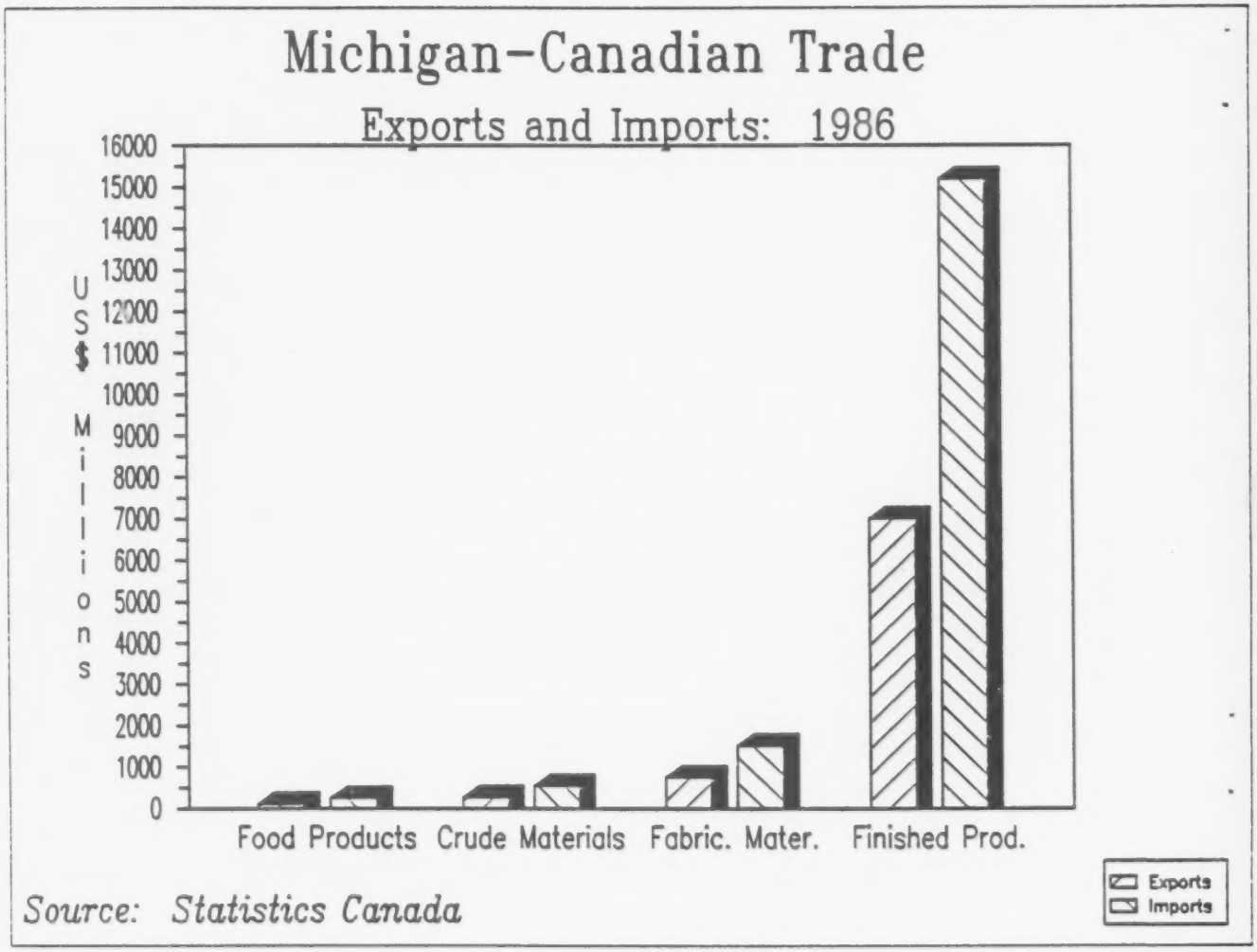

Michigan–Canadian Trade
Exports and Imports: 1986
US $ Millions
16000
15000
14000
13000
12000
11000
10000
9000
8000
7000
6000
5000
4000
3000
2000
1000
0
Food Products
Crude Materials
Fabric. Mater.
Finished Prod.
Exports
Imports
Source: Statistics Canada

Table 32
Leading Michigan Imports from Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Whiskey	86,835	35
Fish	37,075	15
Meat	28,461	11
Live Animals	19,693	8
Other Beverages	13,688	5
Vegetables	12,469	5
Grains and Cereals	11,888	5
Sugar and Sugar Preparations	11,568	5
Fruits	11,203	4
Total for leading eight imports	232,879	93
Total for commodity category	250,964	
Crude Materials		
Crude Petroleum	278,244	51
Natural Gas	191,755	35
Iron and Steel Ore and Scrap	34,477	6
Asbestos, Sulphur and other Crude Minerals	15,518	3
Other Metals	11,557	2
Seeds, Oils and other Crude Vegetable Products	8,582	2
Total for leading six imports	540,132	99
Total for commodity category	543,384	
Fabricated Materials		
Iron and Steel	378,764	25
Newsprint and other Paper	219,639	14
Petroleum and Coal Products	189,444	12
Lumber	152,839	10
Wood Pulp	118,574	8
Non-ferrous Metals and Alloys	108,154	7
Chemicals	90,824	6
Synthetic Rubber and Plastics	78,241	5
Metal Fabricated Products	71,095	5
Abrasives and other Mineral Products	31,620	2
Shingles, Plywood, and other Wood Fabricated Products	30,750	2
Electricity	14,503	1
Fertilizers	12,408	1
Yarn, Fabric and other Textile Products	9,848	1
Total for 14 leading imports	1,506,703	99
Total for commodity category	1,523,672	

(Table 32, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Goods		
Passenger Autos and Chassis	8,775,048	58
Trucks, Truck Tractors and Chassis	2,435,147	16
Motor Vehicle Parts (except Engines)	2,417,606	16
Motor Vehicle Engines and Parts	977,211	6
Metalworking Machinery	75,157	< 1
Televisions, Radios, Phonographs	64,605	< 1
Hand Tools and Misc. Equipment	49,614	< 1
Engines, Turbines and other General Purpose Industrial Equipment	41,355	< 1
Materials Handling Equipment	22,290	< 1
Electric Lighting and Equipment	22,266	< 1
Other Motor Vehicles	18,815	< 1
Office Machines	17,956	< 1
Heating and Refrigeration Equipment	17,708	< 1
Apparel	16,870	< 1
Containers and Closures	16,509	< 1
Aircraft Engines and Parts	15,111	< 1
Drilling, Excavating and Mining Equipment	12,244	< 1
Total for 18 leading imports	14,995,512	99
Total for commodity category	15,191,479	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

Table 33
Leading Michigan Exports to Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Live Animals	29,214	26
Meat	23,509	21
Fruit and Fruit Products	12,048	11
Vegetables	11,899	11
Food and Food Materials	9,209	8
Corn and other Grains and Cereals	7,011	6
Sugar and Sugar Preparations	5,427	5
Fish	4,840	4
Coffee	1,001	1
Total for nine leading exports	104,158	94
Total for commodity category	110,964	
Crude Materials		
Crude Petroleum	131,239	48
Iron and Steel	77,615	29
Other Metals	25,920	10
Crude Non-metallic Minerals	10,804	4
Soy Beans	10,178	4
Total for five leading exports	255,757	94
Total for commodity category	271,573	
Fabricated Materials		
Petroleum and Coal Products	135,738	18
Hardware and Metal Fabricated Basic Products	89,489	12
Iron and Steel (i.e. Rolls, Plate, Pipe)	88,598	12
Nuts, Bolts and Screws	75,308	10
Chemicals	73,492	10
Plastics	63,641	8
Non-ferrous Metals and Alloys	56,234	7
Paints and Related Products	31,131	4
Glass Products	28,714	4
Paper and Paperboard	26,972	4
Rubber	21,631	3
Textile Fabricated Materials	14,132	2
Clay Bricks and Tiles	10,002	1
Abrasive Products	7,924	1
Lumber	4,341	1
Total for 15 leading exports	727,347	96
Total for commodity category	754,558	

(Table 33, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Motor Vehicle Parts (except Engines)	4,965,410	71
Motor Vehicle Engines	535,053	8
Motor Vehicle Engine Parts	404,850	6
Special Industry Machinery	125,929	2
Engines, Generators and other General Purpose Industrial Machinery	92,154	1
Metalworking Machine Tools	72,305	1
Metalworking Machinery	69,632	1
Computers	57,449	1
Hand Tools and Misc. Equipment	53,869	1
Measuring and Lab Equipment	46,203	1
Welding Apparatus	45,900	1
Electrical Lighting and Equipment	42,862	1
Telecommunications Equipment	37,873	1
Materials Handling Equipment	37,570	1
Printed Materials	34,936	< 1
Tractors and Agricultural Machinery	34,378	< 1
A/C and Refrigeration Equipment	25,687	< 1
Furniture and Fixtures	24,486	< 1
Aircraft Engines and Parts	20,923	< 1
Medical Supplies	18,648	< 1
General Industrial Engines and Turbines	17,783	< 1
Containers and Closures	16,820	< 1
Electrical Generators and Motors	15,379	< 1
Aircraft Parts (except Engines)	14,690	< 1
Televisions, Radios and Phonographs	11,260	< 1
Electronic Tubes and Semiconductors	9,692	< 1
Bearings	8,326	< 1
Passenger Autos and Chassis	5,075	< 1
Trucks, Truck Tractors and Chassis	1,877	< 1
Total for 29 leading exports	6,847,016	98
Total for commodity category	7,009,373	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

Minnesota and the FTA

Trade Profile with Canada

Minnesota imported $1.9 billion from Canada in 1986, while exporting $783 million, leaving a trade deficit of $1.1 billion for the state. These figures indicate that Canadian imports constituted over 70 percent of the trade between Minnesota and Canada.

By far, Canadian energy accounted for the largest imports to the state, with $733 million (38 percent in total shipments) in crude petroleum, and $233 million in natural gas (see Figure 21 and Table 34). Minnesota also imports a wide range of fabricated materials including paper, fertilizers, lumber, wood pulp and electricity. Imports of finished goods range from auto parts, the lead import in this category, to office machines, hand tools and machinery.

On the export side, computers, measuring and lab equipment, and a variety of industrial machinery, among other finished products contributed to the state's export performance. In addition, Minnesota ships significant quantities of feeds and grain, as well as numerous fabricated materials such as iron and steel ore and scrap, metal fabricated products, plastics, and chemicals, shown in Table 35.

Winners and Losers under the FTA

Based on current trade patterns, the provisions of the FTA reducing barriers to energy likely would have the greatest impact on the state. In addition to being assured secure, nondiscriminatory access to Canada's abundant energy resources including oil, natural gas, and electricity, Minnesota would see reduced prices in petroluem imports once the 12 percent U.S. tariff was phased out over five years. A reduction in tariffs also would reduce input costs of producers in the state who rely on Canada for fabricated materials, such as fertilizers and chemicals.

The FTA could provide Minnesota an opportunity to redress its trade imbalance by exporting more machinery, paper, telecommunications equipment and metal fabricated products and other semi-finished and finished products once tariffs were removed. Some obstacles would remain intact for several of these products, which are described in detail in Chapter 5.

Some market access barriers and other non-tariff barriers would remain on Minnesota products that the FTA does not address. For example, producers of feeds and grains, for which Minnesota is the leading exporter to Canada from the region, would still have to compete against Canadian rail subsidies for grain shipped from western provinces to ports, including Thunder Bay. These transportation subsidies, which cover an estimated 80 percent of the transportation costs for Canadian grain growers, are alleged to constitute the single largest subsidy payment made to Canadian agriculture. In addition, Canada would continue restricting U.S. grain imports through its import licensing system under the Canadian Wheat Board, unless the United States reduces its subsidies for wheat, oats and barley to Canadian subsidy levels.

Figure 21

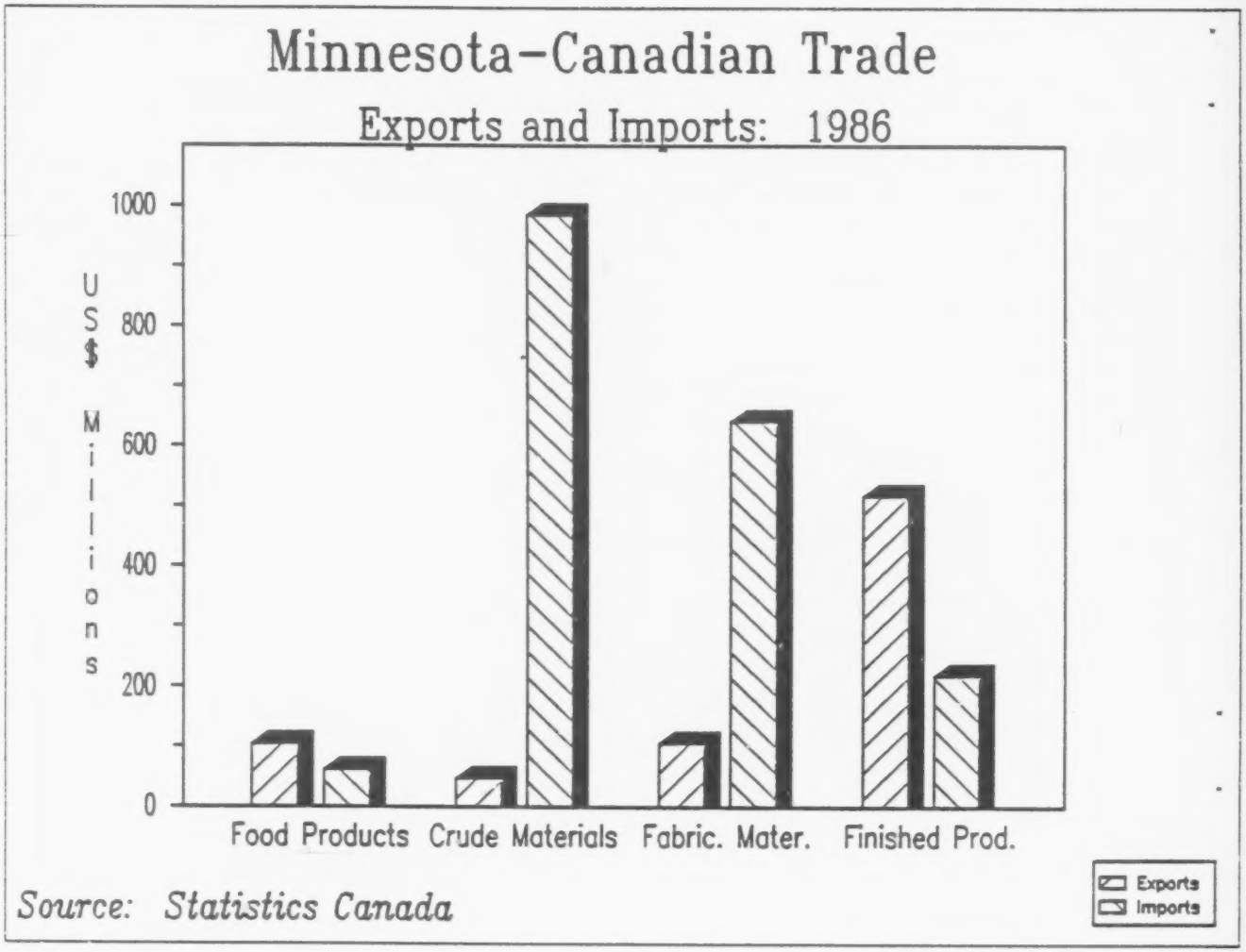

Minnesota-Canadian Trade
Exports and Imports: 1986
US $ Millions
1000
800
600
400
200
0
Food Products
Crude Materials
Fabric. Mater.
Finished Prod.
Exports
Imports
Source: Statistics Canada

Table 34
Leading Minnesota Imports from Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Grains and Cereals	19,107	31
Live Animals	14,730	24
Meat	10,898	18
Fish	8,847	14
Vegetables	1,834	3
Beverages (except Whiskey)	1,304	2
Whiskey	1,127	2
Dairy, Eggs and Honey	898	1
Total for eight leading imports	58,745	96
Total for commodity category	61,310	
Crude Materials		
Crude Petroleum	732,836	74
Natural Gas	232,750	24
Seeds and Crude Vegetable Products	11,942	1
Crude Wood Products	2,319	< 1
Precious Metals	938	< 1
Total for leading five imports	980,785	99
Total for commodity category	984,238	
Fabricated Materials		
Paper	118,978	19
Fertilizers	97,812	15
Lumber	86,318	13
Wood Pulp	84,177	13
Electricity	64,874	10
Petroleum and Coal Products	63,023	10
Chemicals	29,276	5
Iron and Steel	26,758	4
Plastics	26,406	4
Abrasives and other Minerals	21,094	3
Shingles, Plywood and other Wood Fabricated Products	12,053	2
Metal Fabricated Basic Products	5,932	1
Aluminum	3,005	< 1
Textile Fabricated Materials	1,485	< 1
Total for 14 leading imports	641,192	99
Total for commodity category	641,520	

(Table 34, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Goods		
Motor Vehicle Parts	63,684	29
Office Machines and Equipment	26,216	12
Hand Tools and Misc. Equipment	18,549	8
Agricultural Machinery	18,445	8
Telecommuniations Equipment	18,413	8
Engines, Turbines and other General Purpose Industrial Machinery	9,140	4
Measuring and Lab Equipment	7,248	3
Motor Vehicles	6,715	3
Electrical Lighting and Equipment	6,625	3
Mining and Construction Equipment	6,449	3
Apparel	4,554	2
Containers and Closures	4,513	2
Printed Materials	3,576	2
Total for 13 leading imports	194,124	89
Total for commodity category	218,436	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

Table 35
Leading Minnesota Exports to Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Feed and Fodder	45,384	44
Corn and other Grains and Cereals	25,913	25
Sugar and Sugar Preparations	6,541	6
Fruit	5,829	6
Dairy, Eggs and Honey	4,857	5
Vegetables	3,875	4
Live Animals	744	1
Total for seven leading exports	93,143	90
Total for commodity category	103,924	
Crude Materials		
Iron and Steel Ore and Scrap	27,071	58
Abrasives and other Crude Minerals	5,474	12
Aluminum and other Non-ferrous Metals	3,328	7
Fur Skins and other Crude Animal Products	3,281	7
Crude Wood Materials	3,275	7
Seeds and other Crude Vegetable Products	3,027	6
Total for six leading exports	45,456	97
Total for commodity category	46,644	
Fabricated Materials		
Metal Fabricated Products	20,940	20
Plastics	17,800	17
Chemicals	10,113	10
Paper and Paperboard	7,790	7
Abrasive Basic Products	7,616	7
Lumber	6,679	6
Fertilizers	6,223	6
Iron and Steel	5,181	5
Coal and Petroleum Products	3,453	3
Textile Fabricated Materials	3,340	3
Oils, Fats and Waxes	2,873	3
Wood Fabricated Materials	2,433	2
Rubber Fabricated Materials	1,975	2
Aluminum	1,795	2
Total for leading 14 exports	98,210	93
Total for commodity category	105,397	

(Table 35, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Computers	120,880	23
Engines, Generators and other General Purpose Industrial Machinery	38,668	7
Measuring and Lab Equipment	32,079	6
Hand Tools and Misc. Equipment	30,100	6
Motor Vehicle Parts	28,394	5
Telecommunications Equipment	25,736	5
Motor Vehicles	22,167	4
Medical Supplies	20,573	4
Special Industry Machinery	20,088	4
Mining and Construction Equipment	18,176	4
Agricultural Machinery	17,742	3
Aircraft, Engines and Parts	16,072	3
Printed Materials	14,200	3
Materials Handling Equipment	11,976	2
Photographic Goods	8,994	2
Safety and Sanitation Equipment	8,133	2
Railway Rolling Stock (Cars)	7,636	1
A/C and Refrigeration Equipment	6,918	1
Metalworking Machinery	6,689	1
Electronic Tubes and Semiconductors	6,264	1
Electrical Lighting and Equipment	5,475	1
Total for 21 leading exports	466,961	90
Total for commodity category	517,074	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

Ohio and the FTA

Profile of Trade with Canada

Ohio ranks third in the country behind Michigan and New York in total trade with Canada; moreover, the state boasts the largest bilateral trade surplus among the Northeast and Midwest states. In 1986 Ohio shipped $4.4 billion in goods to Canada, and imported $3.0 billion, translating into a $1.4 billion surplus for the state.

Exports of automotive goods constituted $2.1 billion, or 46 percent of Ohio's total shipments to Canada in 1986. Auto parts, engines and engine parts accounted for the vast majority of automotive shipments north. Other finished goods contributed to Ohio's strong export performance, shown in Figure 22, including industrial machinery, hand tools, measuring and lab equipment, electrical lighting equipment, computers, aircraft and parts, bearings, and printed materials (see Table 36).

Ohio, a leading coal producer, shipped $406 million worth of coal to Canada in 1986, representing 9 percent of Ohio's shipments to Canada. Canada also depends on Ohio for farm products, including corn and other grains and feeds, fruit and vegetables. Major fabricated materials shipped north include iron, steel, aluminum, glass, plastics, and paper. Ohio also ships a notable large amount of chemicals and chemical products to Canada, with $108 million exported in 1986.

Auto parts and engines are also at the top of the list on the import side, accounting for $986 million (33 percent) of Canada's shipments in 1986 (see Table 37). Other finished goods imported from Canada include office equipment, industrial machinery, and aircraft parts. Besides finished products, Ohio depends on Canada for a variety of raw materials, including newsprint and other paper, iron and steel products, aluminum, chemicals, lumber, petroleum and coal products, and plastics. Canada also ships a variety of agricultural products to Ohio, dominated by meat, sugar and whiskey.

Winners and Losers Under the FTA

The Auto Pact would continue to govern most bilateral automotive trade. Although Canada's 9.2 percent duty on auto parts would be eliminated after ten years, Canadian production requirements would remain intact, providing little new export opportunities for U.S.-based auto parts producers. The automotive provisions of the FTA are explained in detail in Chapter 4.

Other Ohio manufacturing industries such as machinery and electronics could become more price competitive in Canada with the elimination of Canadian tariffs. For example, industrial machinery manufacturers currently face Canadian tariffs of up to 9.2 percent that would be eliminated over five years under the FTA. The opening of the Canadian market could boost the economic recovery currently enjoyed by the machinery industry.

Ohio manufacturers also would enjoy lower supply costs as a result of U.S. tariff elimination on Canadian goods such as metals and plastics. Lower costs would mean increased profits and greater competitiveness in domestic and world markets for Ohio manufacturers. Another major benefit for Ohio manufacturers

and utilities is the improved access to Canadian energy, particularly natural gas, on a long-term, non-discriminatory basis. Increased access to Canadian energy resources also could create increased competition for some Midwest energy suppliers.

The chemical industry, which ships significant amounts of merchandise to Canada, would certainly benefit from the tariff reductions of the FTA. However, the U.S. industry was hoping that the FTA would address issues of intellectual property rights that govern the patents on their products. Patent and copyright protection in foreign markets is a critical issue for chemical companies which often spend years of research and millions of dollars to develop their products. In addition, the chemical industry maintains that Canada provides direct and indirect subsidies at both the federal and provincial level to the domestic industry. Subsidies, either alleged or determined to exist for Canadian industries, would not be affected by the FTA.

With the phaseout of tariffs over ten years on agriculture goods, plus the elimination of most export subsidies, and the harmonization of U.S. and Canadian health, inspection and other standards, which have served as technical barriers to agriculture products, Ohio farmers should see new opportunities to sell their products in Canada.

Figure 22

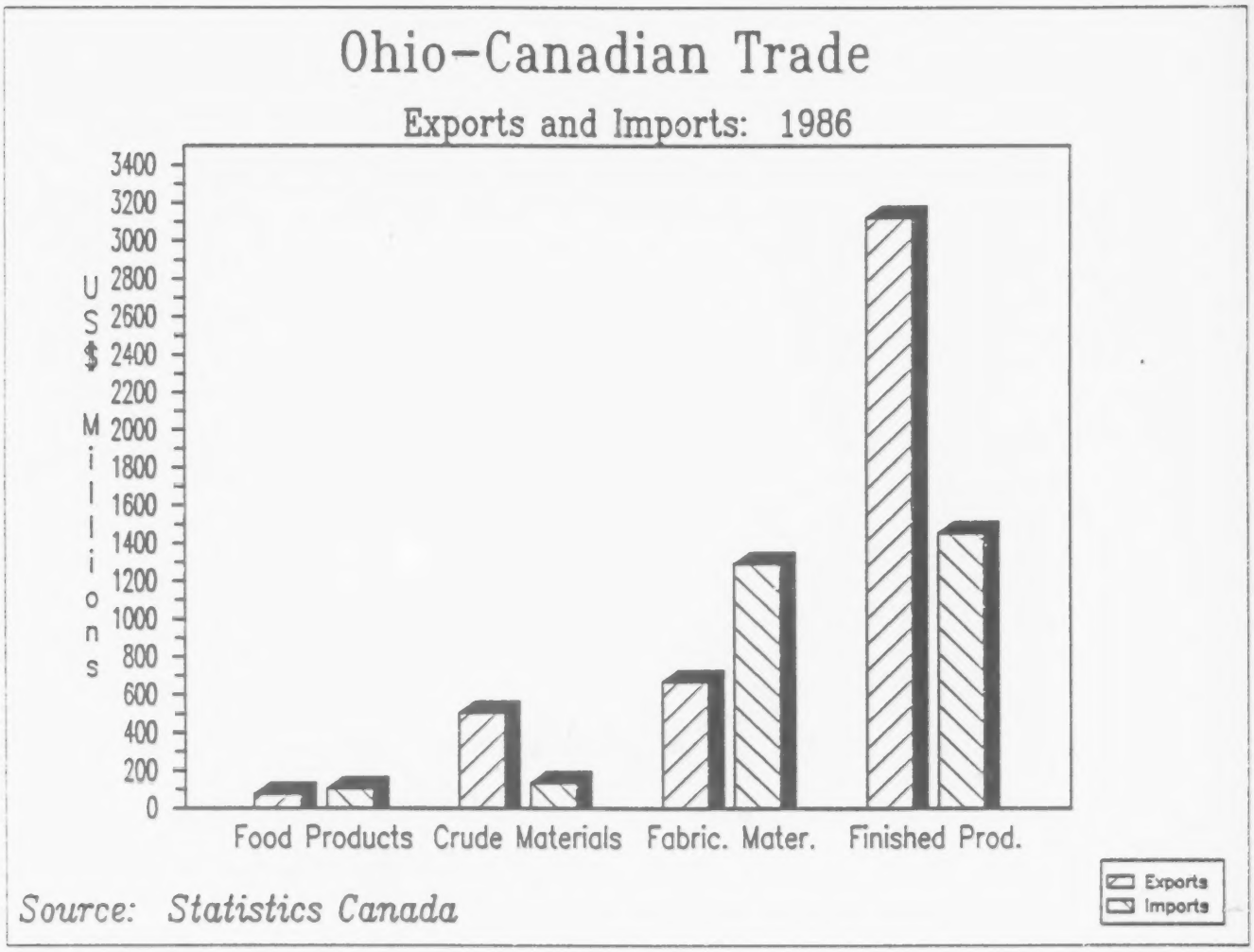

Ohio-Canadian Trade
Exports and Imports: 1986
US $ Millions
3400
3200
3000
2800
2600
2400
2200
2000
1800
1600
1400
1200
1000
800
600
400
200
0
Food Products
Crude Materials
Fabric. Mater.
Finished Prod.
Exports
Imports
Source: Statistics Canada

Table 36
Leading Ohio Exports to Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Corn	19,065	26
Feed and Fodder	17,226	23
Coffee	8,396	11
Fruit	4,415	6
Grains and Cereals (except Corn)	4,151	6
Vegetables	3,811	5
Live Animals	2,714	4
Meat	2,447	3
Sugar and Sugar Preparations	1,555	2
Dairy, Eggs and Honey	974	1
Whiskey and other Beverages	845	1
Total for 11 leading exports	65,598	88
Total for commodity category	74,629	
Crude Materials		
Coal	405,511	80
Iron Ore, Concentrate and Scrap	43,302	9
Soy Beans	16,929	3
Abrasives and other Crude Mineral Products	9,135	2
Fur Skins and other Crude Animal Products	9,069	2
Aluminum	7,178	1
Rubber Gums and other Vegetable Products	3,738	1
Total for seven leading exports	494,861	98
Total for commodity category	504,655	
Fabricated Materials		
Chemicals	107,891	15
Iron and Steel (i.e. Rolls, Plate, Pipe)	97,672	14
Synthetic Rubber and Plastics	94,005	13
Glass Products	39,225	6
Paper and Paperboard	38,968	6
Metal Fabricated Products	36,706	5
Nuts, Bolts and other Basic Hardware	34,003	5
Petroleum and Coal Products	31,511	4
Rubber Fabricated Materials	28,378	4
Clay Bricks and Tiles	27,689	4
Textile Fabricated Materials	26,986	4
Dyes and Paints	25,947	4
Aluminum	25,061	4
Precious Metals	14,044	2
Abrasives and Mineral Products	11,753	2
Lumber	9,756	1
Fertilizer	9,607	1
Total for 17 leading exports	667,295	95
Total for commodity category	704,845	

(Table 36, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Goods		
Motor Vehicle Parts (except Engines)	1,404,552	45
Motor Vehicle Engines	359,805	12
Trucks and Chassis	192,483	6
Engines, Generators, Pumps and other General Purpose Industrial Machinery	119,374	4
Special Industry Machinery	101,700	3
Hand Tools and Misc. Equipment	101,153	3
Metalworking Machinery	72,573	2
Motor Vehicle Engine Parts	70,578	2
Measuring and Lab Equipment	61,307	2
Electrical Lighting and Equipment	58,157	2
Transportation Equipment	57,205	2
Aircraft, Engines and Parts	56,425	2
Bearings	54,086	2
Computers	47,454	2
Passenger Autos and Chassis	32,339	1
A/C and Refrigeration Equipment	29,509	1
Printed Materials	27,777	1
Containers and Closures	25,405	1
Agricultural Machinery	25,031	1
Telephones and other Telecommunications Equip.	22,867	1
Construction Machinery	18,691	1
Kitchen Tools	10,266	< 1
Total for 22 leading exports	2,948,737	94
Total for commodity category	3,122,162	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

Table 37
Leading Ohio Imports from Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Meat	26,487	26
Sugar and Sugar Preparations	15,033	15
Whiskey	14,226	14
Live Animals	11,730	11
Grains and Cereals	10,400	10
Fish	7,069	7
Food and Food Materials	6,200	6
Beverages (except Whiskey)	4,251	4
Vegetables	3,912	4
Total for eight leading imports	99,308	96
Total for commodity category	103,036	
Crude Materials		
Iron Ores and Concentrates	69,569	52
Aluminum	11,019	8
Crude Petroleum	10,622	8
Precious Metals	8,925	7
Seeds and other Crude Vegetable Products	8,436	8
Asbestos and other Crude Minerals	7,732	6
Copper	5,624	4
Total for seven leading imports	121,928	92
Total for commodity category	133,063	
Fabricated Materials		
Newsprint and other Paper	249,061	19
Iron and Steel Products	201,556	16
Petroleum and Coal Products	135,401	10
Lumber	124,699	10
Chemicals	108,239	8
Wood Pulp	86,215	7
Aluminum and Alloys	84,031	7
Plastics and Synthetic Rubber	50,387	4
Metal Fabricated Products	47,679	4
Fertilizers	40,321	3
Zinc and Alloys	36,364	3
Plywood and other Wood Products	23,509	2
Copper and Alloys	21,366	2
Nickel and Alloys	18,173	1
Abrasives and other Mineral Products	16,562	1
Oils, Fats and Waxes	4,766	5
Total for 16 leading imports	1,248,329	97
Total for commodity category	1,291,211	

(Table 37, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Goods		
Motor Vehicle Parts (except Engines)	840,193	58
Motor Vehicle Engines and Parts	146,160	10
Transportation Equipment	58,388	4
Office Machines	47,663	3
Aircraft Parts and Engines	45,944	3
Engines, Turbines and other General Industrial Machinery	37,452	3
Plastics, Papers and other Special Industrial Machinery	36,932	3
Hand Tools and Equipment	35,034	2
Electrical Lighting Equipment	34,785	2
Containers and Closures	19,574	1
Cars, Trucks and other Motor Vehicles	18,536	1
Metalworking Machinery	15,608	1
Heating and Refrigeration Equipment	12,367	1
Agricultural Machinery	10,961	1
Materials Handling Equipment	9,037	1
Televisions, Radios and other Telecommunications Equipment	8,155	1
Printed Materials	5,183	< 1
Total for 17 leading imports	1,381,973	95
Total for commodity category	1,452,640	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

Wisconsin and the FTA

Trade Profile with Canada

Wisconsin enjoys a postive trade balance with Canada, with imports amounting to $1.3 billion and exports north reaching $1.5 billion in 1986. Like all other midwestern states, Wisconsin's strong export performance results from its dominant manufacturing sector, seen in Figure 23.

As shown in Table 38, auto parts is the number one good exported to Canada from the state, followed by agricultural machinery, construction and mining equipment, and hand tools. The state also ships a wide range of equipment and machinery. Wisconsin also exports significant volumes of fabricated materials to Canada such as paper and paperboard, metal fabricated products and plastics. Cotton and man-made fibers, along with fur skins and other animal products comprise the major crude materials shipped north from the state.

On the improt side, Canadian wood pulp, passenger cars, and auto parts constitute the major goods shipped to the state. In addition, Wisconsin relies on Canada for significant quantities of newsprint, lumber, iron and steel, plastics and a range of machinery and equipment (see Table 39).

Winners and Losers under the FTA

Wisconsin auto parts makers would not be guaranteed increase access in the Canadian market, despite a tougher rule of origin for automotive products, which would encourage automakers operating in Canada or the United States to purchase more North American-built auto parts for autos shipped across the border. Automotive provisions of the FTA are explained in detail in Chapter 4.

Textiles and man-made fibers also would not necessarily benefit from the FTA for several reasons, including a higher quota allowance provided Canada than the United States on apparel made from third-country textiles. In addition, Canada is in the process of establishing a new duty remissions program for textiles made from third countries, which amounts to a significant subsidy for its apparel industry. Textile and apparel provisions are described further in Chapter 5.

On the brighter side, machinery manufacturers should see increased sales in Canada once tariffs are phased out over five years. The FTA could add momentum to the industry's current economic recovery, making it one of the strongest industry winners in the state under the FTA. Similarly, Wisconsin's producers of paper and paperboard would benefit from the removal of tariffs over five years.

A major disappointment for the state, however, is the exemption of beer from the FTA. The Canadian beer industry is perhaps one of the best examples of Canadian trade barriers, particularly at the provincial level, and the inefficiencies which they cause. At present, only the large U.S. brewers that have licensing agreements with Canadian provinces are allowed to sell in Canada, while the smaller American brewers--often those with high quality beer, and therefore stand a good chance of successfully competing in Canada--remain shut out of the Canadian market. Restrictions on beer are explained in more detail in Chapter 7.

Figure 23

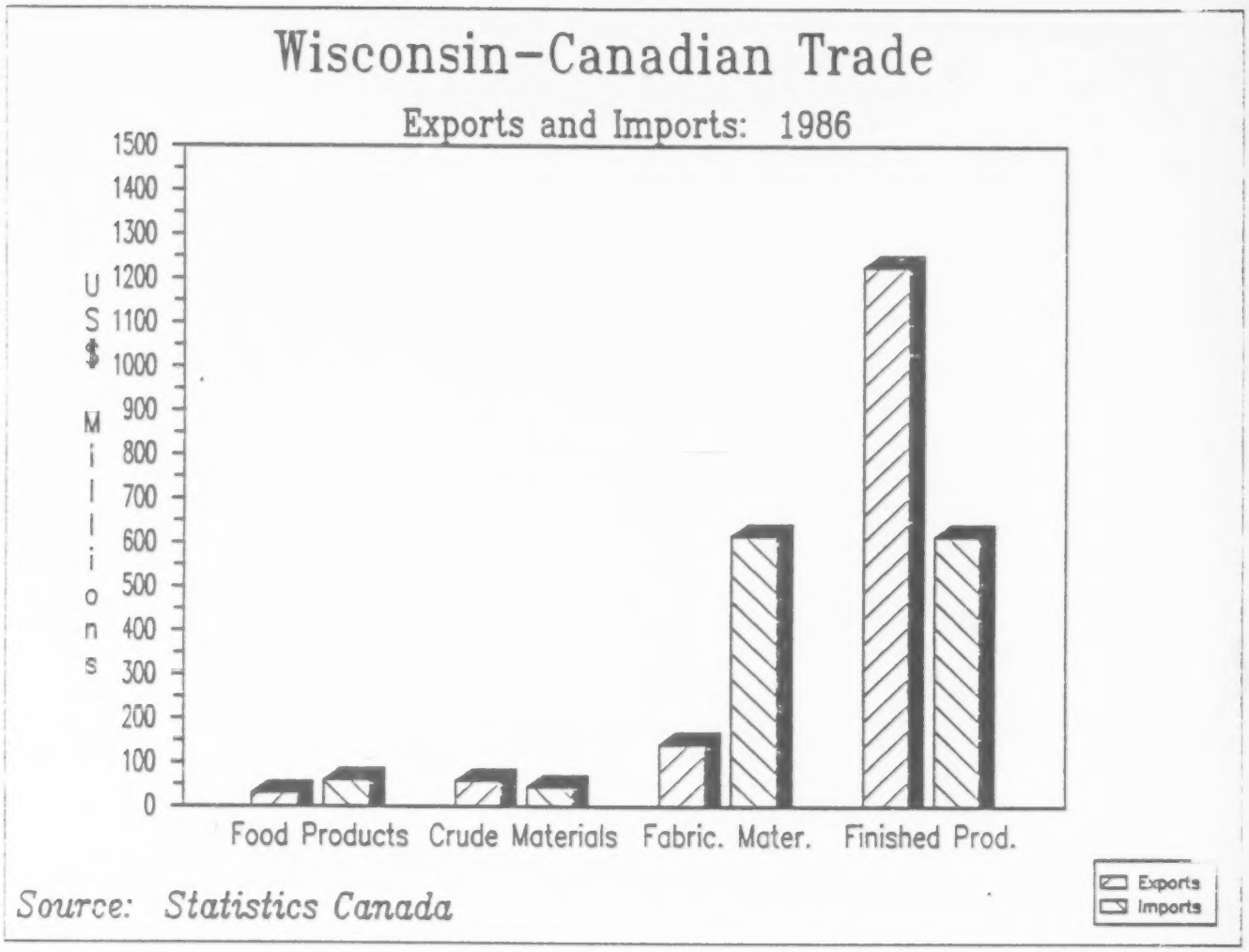

Wisconsin-Canadian Trade
Exports and Imports: 1986
US$ Millions
1500
1400
1300
1200
1100
1000
900
800
700
600
500
400
300
200
100
0
Food Products
Crude Materials
Fabric. Mater.
Finished Prod.
Exports
Imports
Source: Statistics Canada

Table 38
Leading Wisconsin Exports to Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Dairy, Eggs and Honey	3,515	11
Fruit	2,950	10
Meat	2,903	9
Feed and Fodder	2,792	9
Vegetables	2,640	9
Corn and other Grains and Cereals	2,473	8
Live Animals	1,035	3
Sugar and Sugar Preparations	913	3
Fish	602	2
Cocoa and Chocolate	514	2
Total for ten leading exports	20,337	67
Total for commodity category	30,569	
Crude Materials		
Cotton and Man-made Fibers	28,467	49
Fur Skins and other Crude Animal Products	17,440	30
Metallic Ore and Scrap	8,128	14
Soy Beans and other Crude Vegetable Products	1,799	3
Crude Minerals	1,716	3
Total for five leading exports	57,549	99
Total for commodity category	58,290	
Fabricated Materials		
Paper and Paperboard	35,005	25
Metal Fabricated Basic Products	21,061	15
Plastics	16,128	11
Chemicals	13,971	10
Iron and Steel	10,217	7
Textile Fabricated Materials	5,373	4
Petroleum and Coal Products	5,367	4
Plywood and other Wood Materials	5,301	4
Rubber Fabricated Materials	4,398	3
Abrasives and other Mineral Products	3,911	3
Lumber	3,618	3
Aluminum	3,350	2
Copper	2,211	2
Fertilizers	1,926	1
Leather	1,670	1
Glass	1,128	1
Oils, Fats and Waxes	953	1
Total for 17 leading exports	135,588	96
Total for commodity category	141,814	

(Table 38, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Goods		
Motor Vehicle Parts	275,500	22
Agricultural Machinery	192,895	16
Construction and Mining Equipment	110,610	9
Hand Tools and Misc. Equipment	99,977	8
General Purpose Industrial Machinery	81,713	7
Special Industry Machinery	57,746	5
Measuring and Lab Equipment	47,278	4
Ships, Boats and Parts	44,543	4
Electrical Lighting and Equipment	29,855	2
Printed Materials	29,483	2
Materials Handling Equipment	29,009	2
Metalworking Machinery	22,054	2
Computers	19,932	2
A/C and Refrigeration Equipment	14,062	1
Aircraft Parts	12,474	1
Telecommunications Equipment	8,438	1
Safety and Sanitation Equipment	7,382	1
Medical Supplies	7,264	1
Stationer's and Office Equipment	6,641	1
Sevice Industry Equipment	5,212	< 1
Railway Rolling Stock (Cars)	5,196	< 1
Kitchen Utensils and Cutlery	4,744	< 1
Containers and Closures	4,284	< 1
Furniture and Fixtures	4,054	< 1
Motor Vehicles	3,908	< 1
Games, Toys and Sporting Equipment	3,422	< 1
Apparel	2,611	< 1
Photographic Supplies	2,032	< 1
Total for 28 leading exports	1,132,319	92
Total for commodity category	1,227,484	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

Table 39
Leading Wisconsin Imports from Canada
By Major Commodity Category: 1986

Commodity	U.S. $1000s	Percent of total category
Food, Feed, Beverages, Tobacco		
Grains and Cereals	21,922	36
Meat	17,848	30
Fish	5,142	9
Whiskey and other Beverages	3,040	5
Feed and Fodder	2,553	4
Live Animals	2,239	4
Sugar and Sugar Prepartaions	2,103	3
Vegetables	1,952	3
Dairy, Eggs and Honey	659	1
Total for nine leading imports	57,457	95
Total for commodity category	60,346	
Crude Materials		
Crude Petroleum	28,967	65
Sulphur and other Crude Minerals	5,058	11
Seeds and other Crude Vegetable Products	4,898	11
Rawhides and other Crude Animal Products	1,968	4
Pulpwood Chips and other Wood Products	1,287	3
Metallic Ore and Scrap	887	2
Total for six leading imports	43,065	97
Total for commodity category	44,447	
Fabricated Materials		
Wood Pulp and similar Pulp	277,745	45
Newsprint and other Paper	114,393	19
Lumber	54,687	9
Iron and Steel	42,148	7
Plastics	31,545	5
Chemicals	22,834	4
Plywood and other Wood Materials	16,360	3
Fertilizers	12,204	2
Non-ferrous Metals and Alloys	11,770	2
Metal Fabricated Basic Products	9,057	1
Abrasives and other Mineral Products	8,090	1
Petroleum and Coal Products	7,400	1
Textile Fabricated Materials	2,131	< 1
Leather	1,722	< 1
Total for 14 leading imports	612,086	99
Total for commodity category	616,603	

(Table 39, continued)

Commodity	U.S. $1000s	Percent of total category
Finished Products		
Passenger Automobiles	244,283	40
Motor Vehicle Parts	223,598	36
Agricultural Machinery	26,937	4
Special Industry Machinery	22,322	4
Hand Tools and Misc. Equipment	11,853	2
Ships, Boats and Parts	11,294	2
Engines, Generators and other General Purpose Industrial Machinery	10,846	2
Materials Handling Equipment	8,991	1
Electrical Lighting and Equipment	6,237	1
Heating and Refrigeration Equipment	6,078	1
Firearms and Ammunition	5,807	1
Containers and Closures	5,332	1
Trucks and other Motor Vehicles	4,989	1
Aircraft, Engines and Parts	4,617	1
Measuring and Lab Equipment	4,373	1
Telecommunications Equipment	3,761	1
Printed Materials	1,595	< 1
Apparel	1,338	< 1
Total for 18 leading imports	604,250	98
Total for commodity category	616,281	

SOURCE: Staff calculations from Statistics Canada, Domestic Exports/Imports to/from the U.S.A., January to December, 1986 (Ottawa, Canada 1987).

CONCLUSION

If the FTA is approved, it probably will increase bilateral trade, particularly between Canada and the Northeast-Midwest region. However, the impact of the proposed agreement likely would be uneven, with some industries gaining and others losing. While the agreement would provide for freer trade, its overall impact on the balance of trade remains uncertain. Industries that appear to win under the FTA include machinery, electronics (including computers, telecommunications equipment and electronic services), energy-intensive industries, service providers, and wine producers, to name a few. In contrast, the FTA would remove some barriers for several sectors while leaving others intact. Industries in this category include automotive goods, textiles and apparel, printed materials, and some agriculture products, among others.

The FTA breaks some new ground in easing trade barriers at the border, including harmonizing health, inspection, and other technical standards, as well as establishing a Commission to resolve disputes and ensuring nondiscriminatory access to Canadian energy resources on a long-term basis. In addition, the FTA would set some parameters for addressing complex issues such as services and investment in a multilateral context. The agreement also would establish a rule of origin designed to prevent third countries from enjoying the trade benefits of the bilateral agreement.

The agreement falls short, however, of eliminating several long-standing trade problems such as Canadian subsidies, which are prevalent in a number of industries, and adequate protection in Canada of intellectual property rights for U.S. products. In addition, specific U.S. products or services such as beer, printed advertising, and border broadcasting would not see relief from discriminatory treatment in Canada. Finally, the FTA provides language for Canada to create new barriers for U.S. apparel and textile producers and East Coast fish processors. These and other such issues may require future bilateral discussions or legislative action to resolve.

With the importance the adminstration has placed on the FTA, congressional leaders have expressed their intent to vote on the agreement before the August recess. Members of Congress not only will weigh the overall impact of the proposed agreement to the nation but also its potential costs and benefits to specific industries and commercial activity at a state or local level.

GLOSSARY OF TERMS

Antidumping (AD) Code	Statute that provides for the imposition of antidumping duties on foreign merchandise that is being dumped--sold at less than fair value, defined as either exported for less than it is sold in the domestic market or third country markets, or sold at less than production costs--in the U.S. market and causing injury to a U.S. industry. An antidumping duty is equal to the margin of dumping, e.g., if a good is sold at 29 percent less than its fair value, the United States would levy a 29 percent duty on the imported good.
Countervailing Duty Code (CVD)	Statute that provides for the imposition of duties on an imported good to offset subsidies given by the exporting country to producers or exporters of that good. GATT Article VI permits the use of such duties if material injury to the importing country's producers occurs.
Duty Drawback	Rebates of duties to an importer when an imported good is re-exported or used in the manufacture of exported goods, e.g., woven fabric imported from Malaysia, made into a shirt and shipped to the United States.
Duty Remission	Rebates of duties granted to an importer on an imported good when the importer either uses a specified amount of domestic materials in production or exports a given quantity of a product that is unrelated to the imported good that is receiving a rebate.
Fast Track Negotitating Authority	Authority provided by Congress to the president to seek congressional approval of trade agreements on an "up" or "down" vote, as long as no amendments are allowed and congressional consideration is conducted within a specified time period.
General Agreement on Tariffs and Trade (GATT)	A multilateral agreement, first signed in 1947, aimed at expanding and liberalizing world trade. GATT signatories, including the United States and over 90 other countries, agree to rules and disciplines regarding the use of trade barriers. The GATT also provides a forum for member countries to resolve trade disputes and negotiate progressive liberalization of tariff and non-tariff trade barriers through "GATT Rounds." The Uruguay Round is the eighth such round, launched in 1986 and expected to be completed by 1990.

Goods	For purposes of this report, a good is any material, whether in raw form, semi-manufactured or manufactured into a finished product. Examples of goods include agriculture commodities, metals, equipment, natural gas, live animals, textile fibers, and chemicals, to name a few.
Most Favored Nation Treatment (MFN)	An agreement by a country to extend to another country the same concessions it grants to other MFN recipients. For example, goods imported into the United States from an MFN country would be assessed the lower duties under column 1 of the U.S. tariff schedule. GATT members have agreed to accord each other MFN status.
Rules of Origin	Laws, regulations, and administrative practices that are used to ascribe a country of origin to goods in international trade. In the context of the FTA, a rule of origin establishes at what point (including the amount of processing, production or input of labor occurring in Canada or the United States) a good becomes a North American product and thus receives preferential duty treatment under the agreement.
Services	Industries that perform any of the business functions auxiliarly to production or distribution that are usually consumed as they are produced. Examples include banking, tourism, transportation, advertising, and consulting.
Subsidy	There are two general types of subsidies: export and domestic. An export subsidy is a government-granted benefit given to a domestic company contingent upon that firm exporting a specified amount of a good or service. In general, export subsidies are illegal under GATT rules. A domestic subsidy is a government benefit, not linked to exports, given to a specific industry, enterprise, or group of industries or enterprises.
Third Country	For purposes of the FTA, a third country is any country other than the United States or Canada.

SOURCES: U.S. Department of Commerce, Business America, November 23, 1987.

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